



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT OF THE CABINET FOR FAMILIES AND CHILDREN**

**Made as Part of the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 1998**

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## **INTRODUCTION**





**CABINET FOR FAMILIES AND CHILDREN**  
**INTRODUCTION**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**Introduction**

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

**Audit Approach**

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1998 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards
- An audit of the internal control applicable to the Cabinet for Families and Children organizational units and administrative bodies, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Cabinet for Families and Children administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth of Kentucky's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control, focusing on the following objectives:

- Considering the internal control at the Cabinet for Families and Children in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth of Kentucky
- Determining if the Cabinet for Families and Children has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulation.

**CABINET FOR FAMILIES AND CHILDREN**  
**INTRODUCTION**  
**FOR THE YEAR ENDED JUNE 30, 1998**  
**(Continued)**

**List of Abbreviations/Acronyms Used In This Report**

ACYF	Administration for Children, Youth, and Families
ADD	Area Development District
CAA	Community Action Agencies
CBW	Children's Benefit Workers
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHS	Cabinet for Families and Children
DCBS	Department for Community Based Services
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
DDS	Disability Determination System
DJJ	Department of Juvenile Justice
DSI	Department of Social Insurance
DSS	Department for Social Services
EAV	Enrollment Verification Forms
FFY	Federal Fiscal Year
JOBS	Job Opportunities and Basic Skills Training
KACA	Kentucky Association of Community Action Agencies
KAMES	Kentucky Automated Management and Eligibility System
KCA	Kentucky Automated Claims System
KCCMS	Kentucky Child Care Management System
KCL	Kentucky Claims
LIHEAP	Low-Income Home Energy Assistance
MARS	Management Administrative Reporting System
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Policy Announcement
PA	Public Assistance (type of form)
PCIE	President's Council on Integrity and Efficiency
RMDS	Report Management Distribution System
SFAG	State Family Assistance Grant
SSBG	Social Services Block Grant
SVES	State Verification Eligibility System
TWIST	The Workers Information System
USDA	United States Department of Agriculture

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FEDERAL ASSISTANCE - BY STATE AGENCY  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES	
		CASH	NONCASH
CABINET FOR FAMILIES AND CHILDREN			
<u>U.S. Department of Agriculture</u>			
Direct Programs:			
10.551 Food Stamps (Note 2) (Note 3) (Note 5)	NA		\$ 352,605,393
10.561 State Administrative Matching Grants For Food Stamp Program (Note 2) (Note 6)	3F8404	\$ 26,405,514	
10.570 Nutrition Program For The Elderly (Commodities) (Note 6)	LOC 12-35-2161	1,901,811	
<u>U.S. Department of Labor</u>			
Direct Programs:			
17.235 Senior Community Service Employment Program (Note 6)	D-5063-5-00-81-55	1,584,551	
17.253 Welfare To Work Grants To States And Localities	Y64548008150	78,223	
<u>U.S. Department of Energy</u>			
Direct Programs:			
81.042 Weatherization Assistance For Low-Income Persons (Note 6)	DEFG44-97R410686	2,240,401	
N/A Weatherization Oil Overcharge Fund	NA	5,219,676	
<u>U.S. Department of Education</u>			
Direct Programs:			
84.013 Title 1 Program For Neglected And Delinquent Children (Note 4)	S013A50017		
84.027 Special Education-Grants To States (Note 4)	S011A50017		
<u>U.S. Department of Health and Human Services</u>			
Direct Programs:			
93.041 Special Programs For The Aging-Title VII, Chapter 3, Programs For Prevention Of Elder Abuse, Neglect, And Exploitation (Note 6)	NA	66,493	
93.042 Long-term Care Ombudsman Services For Older Individuals, Title VII, Chapter 2	NA	60,163	
93.043 Special Programs For The Aging-Title III, Part F, Disease Prevention And Health Promotion Services (Note 6)	NA	184,868	
93.044 Special Programs For The Aging-Title III, Part B, Grants For supportive Services And Senior Centers (Note 6)	NA	4,427,664	
93.045 Special Programs For The Aging-Title III, Part C, Nutrition Services (Note 6)	NA	6,584,739	

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FEDERAL ASSISTANCE - BY STATE AGENCY  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	EXPENDITURES	
			CASH	NONCASH
CABINET FOR FAMILIES AND CHILDREN (CONTINUED)				
U.S. Department of Health and Human Services (Continued)				
Direct Programs (Continued):				
93.046	Special Programs For The Aging-Title III, Part D, In-Home Services For Frail Older individuals (Note 6)	NA	\$	95,700
93.048	Special Programs For The Aging-Title IV-Training, Research, And Discretionary Projects And Programs (Note 6)	NA		121,550
93.049	Special Programs For The Aging-Title VII, Chapter 6-Allotments For Vulnerable Elder Rights Protection Programs	NA		1,713
93.556	Family Preservation And Support Services (Note 6)	NA		3,618,959
93.558	Temporary Assistance For Needy Families (Note 2) (Note 6)	NA		145,300,051
93.560	Family Support Payments To States - Assistance Payments	NA		1,061,357
93.563	Child Support Enforcement (Note 2) (Note 6)	NA		31,526,562
93.568	Low-Income Home Energy Assistance (Note 2) (Note 6)	NA		14,695,143
93.569	Community Services Block Grant (Note 6)	NA		7,428,617
93.571	Community Services Block Grant Discretionary Awards-Community Food And Nutrition	NA		39,111
93.572	Emergency Community Services For The Homeless, Homeless Block Grant Program (Note 4)	NA		
93.575	Child Care And Development Block Grant (Note 6)	NA		9,270,274
93.595	Welfare Reform Research, Evaluations, And National Studies (Note 2)	NA		17,782,464
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund (Note 2) (Note 6)	NA		24,648,180
93.597	Grants To States For Access And Visitation Programs	NA		175,640
93.643	Children's Justice Grants To States (Note 6)	NA		158,890
93.645	Child Welfare Services-State Grants	NA		4,413,289
93.658	Foster Care Title IV-E (Note 2) (Note 6)	NA		43,622,560
93.659	Adoption Assistance	NA		3,992,092
93.667	Social Services Block Grant (Note 2) (Note 6)	NA		29,099,467
93.669	Child Abuse And Neglect State Grants (Note 6)	NA		412,671
93.671	Family Violence Prevention And Services/Grants For Battered Women's Shelters-Grants To States And Indian Tribes (Note 6)	NA		549,519
93.674	Independent Living (Note 6)	NA		654,166
93.778	Medical Assistance Program (Note 2)	NA		13,160,506
93.779	Healthcare Financing Research, Demonstrations And Evaluations	NA		173,658
N/A	The Placement And Treatment Of Neuropsychiatric Patients	280-96-0001		398,626

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FEDERAL ASSISTANCE - BY STATE AGENCY  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR		PASS-THROUGH GRANTOR'S #	EXPENDITURES	
CFDA #/ PROGRAM TITLE			CASH	NONCASH
CABINET FOR FAMILIES AND CHILDREN (CONTINUED)				
<u>U.S. Social Security Administration</u>				
Direct Program:				
96.001	Social Security - Disability Insurance (Note 2) (Note 6)	4-9804KYD100	31,322,360	
TOTAL CABINET FOR FAMILIES AND CHILDREN			\$ 432,477,228	\$ 352,605,393

**CABINET FOR FAMILIES AND CHILDREN**  
**NOTES TO THE SCHEDULE OF**  
**EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 1998**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Purpose of the Schedule** - OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

**Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, federal financial assistance ". . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . ." It includes awards received directly from federal agencies, or indirectly through other units of State and local governments. Accordingly, the accompanying schedule includes the Cabinet for Families and Children's cash and noncash federal financial assistance programs for the year ended June 30, 1998. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the other federal assistance subheading.

**Reporting Entity** - The Cabinet for Families and Children is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditures of Federal Awards of the Cabinet for Families and Children presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Cabinet for Families and Children.

**Basis of Accounting** - The cash expenditures on the accompanying Schedule of Expenditures of Federal awards are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, ". . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose." However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards - Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

The noncash expenditures presented on these schedules represent the noncash assistance expended by the Cabinet for Families and Children during the period July 1, 1997 through June 30, 1998, using the method or basis of valuation as described in the notes to the Schedule of Expenditures of Federal Awards for each program. These noncash assistance programs are not reported in the Commonwealth's general-purpose financial statements for the year ended June 30, 1998.



**CABINET FOR FAMILIES AND CHILDREN  
NOTES TO THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 1998  
(CONTINUED)**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Commonwealth's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass-through to state universities as discussed below, this inter-agency transfer activity is reported in the Commonwealth's Schedule of Expenditures of Federal Awards as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
  - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Commonwealth's schedules exclude federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the Commonwealth's schedule only by the purchasing agency as an expenditure.

**CABINET FOR FAMILIES AND CHILDREN**  
**NOTES TO THE SCHEDULE OF**  
**EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 1998**  
**(CONTINUED)**

**Note 2 – Type A Programs**

Under the provision of the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal programs must be defined as Type A or Type B programs. For the Statewide Single Audit of the Commonwealth of Kentucky, a Type A program must have expended over \$12 million. All other programs are Type B programs.

Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash portion of the Schedule of Expenditures of Federal Awards, plus any cash expenditures under the same CFDA designation.

The Cabinet for Families and Children had 11 programs that met the Type A major program definition for the year ended June 30, 1998. These programs were:

<u>CFDA</u>	<u>Program Title</u>	<u>Amount</u>
10.551	Food Stamps	\$352,605,393
10.561	State Administrative Matching Grants For Food Stamp Program	26,405,514
93.558	Temporary Assistance For Needy Families	145,300,051
93.563	Child Support Enforcement	31,526,562
93.568	Low-Income Home Energy Assistance	14,695,143
93.595	Welfare Reform Research, Evaluations, And National Studies	17,782,464
93.596	Child Care Mandatory and Matching Funds Of The Child Care And Development Fund	24,648,180
93.658	Foster Care - Title IV-E	43,622,560
93.667	Social Services Block Grant	29,099,467
93.778	Medical Assistance Program	13,160,506
96.001	Social Security - Disability Insurance	31,322,360
	<b><u>TOTAL</u></b>	<b><u>\$730,168,200</u></b>

**CABINET FOR FAMILIES AND CHILDREN**  
**NOTES TO THE SCHEDULE OF**  
**EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 1998**  
**(CONTINUED)**

**Note 3 - Activity Occurring in Noncash Programs With Inventoriable Items**

The Cabinet for Families and Children is a pass-through entity for local organizations. The Cabinet receives, stores, and distributes inventory items related to noncash programs. In these instances, all items received are distributed.

	Food Stamps 10.551
• Beginning Inventory, July 1, 1997	\$ 77,541,637
Current Year Receipts	350,421,000
Current Year Distributions	(352,605,393)
Transfers/Losses/ Adjustments	4,380,908
Ending Inventory, June 30, 1998	\$ 79,738,152

- Beginning balance has been adjusted by \$1,730 (to Transfers/Losses/Adj.) to agree to FY 1997 ending inventory balance. The difference is due to State Law Enforcement Bureau investigations.

**Note 4 - Zero Expenditure Programs**

These programs had no expenditures during the year ended June 30, 1998. They include programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also include programs with activity other than expenditures.

**Note 5 - Noncash Expenditure Programs:**

The Cabinet for Families and Children had one noncash program for the year ended June 30, 1998. This noncash program and a description of the method/basis of valuation included:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>	<u>Method/Basis of Valuation</u>
10.551	Food Stamps	\$ 352,605,393	USDA's value at the time of delivery to recipient agencies.

**CABINET FOR FAMILIES AND CHILDREN**  
**NOTES TO THE SCHEDULES OF**  
**EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 1998**  
**(CONTINUED)**

**Note 6 - Subrecipient Activity**

As required by OMB Circular A-133, the following list summarizes the amount of federal funds sent to subrecipients:

<b>CFDA#</b>	<b>Federal Program Name</b>	<b>Amount Provided To Subrecipient</b>
10.561	State Administrative Matching Grants For Food Stamp Program	\$ 591,258
10.570	Nutrition Program For The Elderly (Commodities)	1,931,358
17.235	Senior Community Service Employment Program	1,666,310
81.042	Weatherization Assistance For Low-Income Persons	1,898,405
93.041	Special Programs For The Aging-Title VII, Chapter 3, Programs For Prevention Of Elder Abuse, Neglect, And Exploitation	67,191
93.042	Long-Term Care Ombudsman Services For Older Individuals, Title VII, Chapter 2	1,293
93.043	Title III, Part F, Disease Prevention And Health Promotion Services	218,506
93.044	Title III, Part B, Grants For Supportive Services And Senior Centers	4,094,397
93.045	Special Programs For The Aging-Title Iii, Part C, Nutrition Services	5,847,312
93.046	Title III, Part D, In-Home Services For Frail Older Individuals	129,767
93.048	Special Programs For The Aging-Title IV, Training, Research, And Discretionary Projects And Programs	74,757
93.556	Family Preservation And Support Services	3,533,464
93.558	Temporary Assistance For Needy Families	7,103,397
93.563	Child Support Enforcement	15,840,229
93.568	Low-Income Home Energy Assistance	14,508,625
93.569	Community Services Block Grant	7,749,688
93.575	Child Care And Development Block Grant	3,634,692
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund	8,873,429
93.643	Children's Justice Grants To States	82,667
93.658	Foster Care Title IV-E	6,395,741
93.667	Social Services Block Grant	410,647
93.669	Child Abuse And Neglect State Grants	458,309
93.671	Family Violence Prevention And Services/Grants For Battered Women's Shelters-Grants To States And Indian Tribes	647,643
93.674	Independent Living	675,752
93.779	Healthcare Financing Research, Demonstrations And Evaluations	156,745
96.001	Social Security - Disability Insurance	4,797,531
<b><u>Total</u></b>		<b><u>\$ 91,389,113</u></b>

## **REPORTS ON COMPLIANCE AND INTERNAL CONTROL**





# Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children

## Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. We have audited receipts, expenditures, payroll, pre-audit authority, imprest cash, and delegated purchasing authority of the Cabinet for Families and Children, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010. We conducted our audit in accordance with generally accepted government auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United State.

### Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of the Cabinet for Families and Children's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cabinet for Families and Children's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and applicable federal awarding agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed –  
January 30, 1999





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children

Report On Compliance With Requirements  
Applicable To Each Major Program And Internal  
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Families and Children with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The Cabinet for Families and Children's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cabinet for Families and Children's management. Our responsibility is to express an opinion on the Cabinet for Families and Children's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cabinet for Families and Children's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Cabinet for Families and Children's compliance with those requirements.

In our opinion, the Cabinet for Families and Children complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children  
Report On Compliance With Requirements  
Applicable To Each Major Program And Internal  
Control Over Compliance In Accordance With OMB Circular A-133  
(Continued)

### Internal Control Over Compliance

Management of the Cabinet for Families and Children is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cabinet for Families and Children's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Cabinet for Families and Children's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-CFC-1 through 98-CFC-25.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider 98-CFC-23, 98-CFC-24, and 98-CFC-25 to be material weaknesses.

We also noted other matters involving the internal control over compliance that we have reported in the accompanying Schedule of Findings and Questioned Costs.

### Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the Commonwealth of Kentucky's general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards of the Cabinet for Families and Children, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Commonwealth of Kentucky's general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children  
Report On Compliance With Requirements  
Applicable To Each Major Program And Internal  
Control Over Compliance In Accordance With OMB Circular A-133  
(Continued)

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Cabinet for Families and Children is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Cabinet for Families and Children.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on the accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Awards of the Cabinet for Families and Children is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the Cabinet for Families and Children is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended for the information of management and applicable federal awarding agencies. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork complete –  
July 30, 1999



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**CABINET FOR FAMILIES AND CHILDREN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statement Accounts and Schedule of Expenditures of Federal Awards**

Financial Statement Accounts: We issued an qualified opinion on the Commonwealth of Kentucky’s general-purpose financial statements as of and for the year ended June 30, 1998, because we were unable to verify evidence regarding year 2000 disclosures. The Cabinet for Families and Children was included in our audit procedures of the general-purpose financial statements.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Cabinet for Families and Children’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles. The opinion was issued in relation to the Commonwealth of Kentucky’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: Our consideration of the Cabinet for Families and Children’s internal control over financial reporting disclosed no material weaknesses.

Compliance: In relation to the audit of the Cabinet for Families and Children’s accounts that we audited, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards

**Federal Awards**

Internal Control Over Compliance: Our consideration of the Cabinet for Families and Children’s internal control over compliance disclosed twenty (20) reportable conditions. We believe that three (3) of the reportable conditions constitute, material weaknesses.

Compliance: We issued an unqualified opinion on the Cabinet for Families and Children’s compliance with the requirements applicable to each of its major federal programs.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)**

**Identification of Major Programs**

OMB Circular A-133 defines a major program (Type A program) as “a Federal program determined by the auditor to be a major program in accordance with section \_ .520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section \_ 215(c).” Section \_ .520 states, “The auditor shall use a risk-based approach to determine which Federal programs are major programs.”

The following is a list of Type A programs audited:

<b>CFDA #</b>	<b>Program Name</b>	<b>Amount</b>
<b><u>Type A Programs</u></b>		
10.551	Food Stamps	\$352,605,393
10.561	State Administrative Matching Grants For Food Stamp Program	26,405,514
93.558	Temporary Assistance For Needy Families	145,300,051
93.563	Child Support Enforcement	31,526,562
93.568	Low-Income Home Energy Assistance	14,695,143
93.595	Welfare Reform Research, Evaluations, And National Studies	17,782,464
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund	24,648,1180
93.658	Foster Care - Title IV-E	43,622,560
93.667	Social Services Block Grant	29,099,467
96.001	Social Security - Disability Insurance	31,322,360

**Dollar Threshold Used to Distinguish Between Type A and Type B Programs**

The dollar threshold used to distinguish between Type A and Type B Programs was \$12 million.

**Auditee Qualify as Low-Risk Auditee?**

The Commonwealth of Kentucky does not qualify as a low-risk auditee.



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

**There were no financial statement audit findings.**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Reportable Conditions Relating To Internal Controls And/Or Compliance:**

**FINDING 98-CFC-1: The Cabinet For Families And Children Should Increase Efforts To Discover And Recover Overpayments And Duplicate Payments Made To Child Care Providers Through The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575-Child Care and Development Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Not Applicable

Amount of Questioned Costs: None

The Cabinet for Families and Children changed procedures for paying child care providers through the Child Care and Development Fund for the period January 1 through June 30, 1998 when outside contractors assumed the duties. Enrollment Verification Forms were prepared by service agents and sent to child care providers each month. The providers then filled out the forms to claim the number of days of care per child and returned them to the service agents. The completed forms were then used by the service agents as invoices. A cap on expenditures per child was established and EAVs were reviewed to determine that reimbursements did not exceed the cap.

The Cabinet did not assign responsibility for discovery and recovery of overpayments and duplicate payments:

- The service agents were not required in their contracts to review for duplicate billing
- The Cabinet did not test the effectiveness of Kentucky Child Care Management System (KCMMS) controls intended to prevent duplicate billing
- Personnel who prepare Purchase Orders for expenditures were not able to test for duplicate billings since the service agents retain invoices and enter bills in KCCMS
- The service agents made no effort to search for duplicate payments which were not voluntarily returned, but kept and cashed by the service provider

The aforementioned weaknesses resulted in a sharp increase in duplicate payments from the first half of FY 1998. Duplicate payments which were voluntarily returned by child care providers to CFC increased from 19 for the period July 1 through December 31, 1997, to 360 for the period January 1 through June 30, 1998, a total increase of 1900%.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-1: The Cabinet For Families And Children Should Increase Efforts To Discover And Recover Overpayments And Duplicate Payments Made To Child Care Providers Through The Child Care And Development Fund (Continued)**

OMB Circular A-133 specifies, “Costs must be reasonable and necessary for the performance and administration of Federal awards.” Overpayments and duplicate payments by definition are neither reasonable nor necessary.

Good accounting and business practices dictate that internal controls be in place to prevent or promptly detect overpayments and duplicate payments.

**Recommendation**

We recommend that CFC:

- Include in future contracts criterion that holds service brokers responsible for preventing or detecting duplicate billings and over-billings
- Request that independent auditors of the five service brokers test for overpayments and duplicate billings
- Modify the KCCMS system to include additional edit checks designed to discover duplicate billings

**Management's Response and Corrective Action Plan**

*The Cabinet agrees. Contracts with service agents for FY 99-00 will include a requirement for child care service agents to prevent and detect duplicate billings or over-billings. It will also require that independent audits of the service agents include a test for overpayments. Future efforts to monitor the service agents to determine fulfillment of contract obligations will include an emphasis on the review of this problem.*

*Every time the service agent processes the EAV, they review it for correctness. If the EAV is processed through KCCMS, there are controls in the system to prevent double billing. Testing is an ongoing process with each billing cycle, as OTS [Office of Technical Services] continues to monitor, develop and enhance KCCMS.*

*When duplicate payments are identified, the service agents do make every effort, through letters and telephone calls, to recoup the duplicate payment. OTS continues to explore ways of making KCCMS more efficient. They are also exploring ways to obtain return information from Finance and Treasury in order to identify and prevent duplicate billings.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-2: The Cabinet For Families And Children Should Submit Federal Reports In A Timely Manner**

State Agency: Cabinet for Families and Children

Federal Program: 10.561-State Administrative Matching Grants for Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Issuance and Inventory Records

Amount of Questioned Costs: None

A non-statistical sample of FNS-250s, Food Coupon Accountability Report, from the 2<sup>nd</sup> quarter of FY 1998 was tested. Due to incorrect inventory balances for \$2.00 and \$7.00 coupons reported for Fayette County in the initial FNS-250 reports, revised FNS-250s for the 2<sup>nd</sup> quarter were submitted to FNS on April 8, 1998. Federal regulations require that revised FNS-250 reports be submitted within 105 days after the end of the report month. Based on this requirement, the revised FNS-250 reports for October 1997 and November 1997 were submitted 54 and 24 days late, respectively.

Late submission of the revised FNS-250 reports appears to be caused by untimely identification of incorrect inventory balances.

Failure to identify incorrect amounts reported on the FNS-250 in a timely manner could result in improper reporting amounts on present and future FNS-250s.

CFR, Volume 7, Section 274.4, Reconciling and Reporting, states that “the Form FNS-250 shall be reviewed by the State agency for accuracy, completeness, and reasonableness . . . any revisions to the Form FNS-250 for a given month shall be submitted to FNS within 105 days after the end of the report month.”

**Recommendation**

DSI should ensure that each FNS-250 is reviewed for accuracy, completeness, and reasonableness. FNS-250 reports should be compared to prior reports to determine proper beginning and ending inventory balances. In addition, any revisions made to previously submitted FNS-250 reports should be promptly submitted to FNS when discovered.

**Management’s Response and Corrective Action Plan**

*We concur with the recommendation stated. Procedures have been initiated to review the FNS-250 for completeness and accuracy. Any revisions to previously submitted FNS-250 will be promptly submitted to FNS.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-3: The Cabinet For Families And Children Should Establish Claims Against Households In Accordance With Existing Policies**

State Agency: Cabinet for Families and Children

Federal Program: 10.561-State Administrative Matching Grants for Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Claims Against Households

Amount of Questioned Costs: None

A random sample of 100 Claims Against Households cases established during July 1, 1997 through June 30, 1998 was selected for testing to determine compliance with federal regulations. Based upon the tests performed, 37 of 100 (37%) claims were not established within 6 months of the discovery date. On average, it took 8 months to establish a claim against a household from the time an over-issuance was initially discovered.

Failure to establish a claim against a household within 6 months of the discovery date is a violation of federal regulations and agency policy. Delays in establishing a claim against a household makes it very difficult for the agency to collect and prosecute if the claim type is an Intentional Program Violation. In addition, when an excessive amount of time is taken to establish a claim against a household, collection of the claim is often suspended or terminated because the household cannot be located or the cost of collection may exceed the amount that can be recovered. This results in old/uncollectible receivables for claims, many of which are inactive, being carried forward for many years on the PAFS-434 Report.

The Field Services Operation Manual, Volume I, Section 1515, Reporting Claims Activity, states: "For FS, by the end of six months from the date the suspected overissuance is first entered on the KCA system complete form FS-400, Claim Determination Report, and send either FS-412, Repayment Request, or FS-413, Intentional Program Violation Repayment Notice, or determine no overissuance exists and update the KCA system."

**Recommendation**

We recommend that the Department of Social Insurance (DSI) enforce the policies set forth in the Field Service Operations Manual regarding claims establishment.

**Management's Response and Corrective Action Plan**

*By early Fall of 1999, the Department of Community Based Services will send a management team to county offices to review for claims policy and procedure compliant.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-4: The Cabinet For Families And Children Should Improve Efforts To Document Procedures For The Low Income Home Energy Assistance Branch**

State Agency: Cabinet for Families and Children

Federal Program: 93.568-Low Income Home Energy Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

The Cabinet for Families and Children does not have written procedures for the administration of LIHEAP for the method used to calculate the crisis reserve amount or for the manner in which data was compiled for the statistics report.

Without written procedures, federal regulations could be violated and tasks improperly performed. Lack of written procedures could result in an insufficient amount of funds being reserved until March 15. Also, data for thousands of applications is entered into a database, sorted, and compiled for the statistics report. The lack of written procedures could result in the erroneous compilation of data used to complete the statistics report.

Effective internal control dictates that written procedures be developed for vital processes.

**Recommendation**

The Energy Assistance Branch should document procedures for the calculation of the crisis reserve and for the compilation of data used in the statistics report.

**Management's Response and Corrective Action Plan**

*The Energy Assistance Section will develop written procedures describing the process for calculating the crisis contingency fund to ensure that the reserve amount is not exceeded. Written procedures will be developed describing the process by which data is compiled for the annual report. In 1998-1999 the contractor is using a database to sort and compile data.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-5: The Cabinet For Families And Children Should Develop And Enforce Strict Sanctions In Relation To The Social Services Block Grant**

State Agency: Cabinet for Families and Children

Federal Program: 93.667-Social Services Block Grant (SSBG)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

The Department for Social Services (DSS) did not take appropriate action against subrecipients who failed to obtain and submit an audit report.

DSS, as a primary recipient of federal funds, makes subcontracts or subawards to subrecipients. As the oversight department, DSS must ensure subrecipients are complying with applicable federal regulations governing the funds distributed. These federal regulations require audit reports and schedules. These reports should include specific types of information and opinions. A part of the oversight function is to ensure auditors are submitting audit reports that comply with federal regulations. This could be accomplished by using a tracking system and by enforcing sanctions against subrecipients who do not comply with the audit requirement.

Due to the refusal of subrecipients to submit audit reports, the contracts cannot be closed for the year. In addition, DSS cannot determine if the audits were prepared in accordance with federal regulations, nor provide reasonable assurance that SSBG funds were spent in accordance with federal regulations.

OMB Circular A-133 requires that state or local governments ensure that subrecipients spent federal assistance funds in accordance with applicable laws and regulations. This may be accomplished by requiring subrecipients to submit an audit report.

**Recommendation**

We recommend the Cabinet for Families and Children:

- Include a statement in the next subrecipient contract regarding sanctions to be taken against a subrecipient who refuses to submit an audit report
- Develop and enforce strict sanctions against the subrecipient when the subrecipient refuses to submit an audit report

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-5: The Cabinet For Families And Children Should Develop And Enforce Strict Sanctions In Relation To The Social Services Block Grant (Continued)**

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**Recommendation (Continued)**

OMB Circular A-133, section 225, lists suggested sanctions, such as:

- Withholding a percentage of federal awards until the audit is completed satisfactorily
- Withholding or disallowing overhead costs
- Suspending federal awards until the audit is conducted
- Terminating the federal award

**Management's Response and Corrective Action Plan**

*At the request of the Cabinet Secretary, the Cabinet included in the FY 2000 contract, entitled REMEDIES FOR BREACH, which states:*

*It is agreed by both parties that in the event of breach of contract by the Second Party, the Cabinet may pursue any remedy available to it pursuant to this contract, or to the provisions of KRS Chapter 45 A, or any remedy that is available to it at law. The remedies available to the Cabinet may be invoked without regard to the existence of any other available remedy, and may include the payment of any specified liquidated damages by the Second party to the Cabinet for noncompliance as provided for in this contract.*

*In addition, the Cabinet is also in the process of developing criteria for contract cancellation for noncompliance and will take into consideration the suggested sanctions provided by the APA.*

**FINDING 98-CFC-6: The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program**

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State Agency: Cabinet for Families and Children

Federal Program: 93.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Collection of Overpayments

Amount of Questioned Costs: None

The FY 1997 audit of the Cabinet for Families and Children disclosed a reportable condition relating to claims establishment. During the prior year audit, we tested a sample of 93 claims and noted that the length of time to establish claims was excessive, as well as the length of time between inactivation and transfer to the Collections Branch.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-6: The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program (Continued)**

The Cabinet for Families and Children has 30 days to establish a claim against a household, once discovered. After 30 days, claims are considered inactive and must be forwarded to the Collection Branch.

In its response to the finding, the agency agreed with our recommendations and said that the KCA and KCL systems would be linked and that all transfers to and from the Collections Branch, as well as automated benefit reduction and automated notices, would be processed without worker intervention. However, we tested the internal controls over claims during the FY 1998 audit and found that the deficiencies have not been corrected.

We tested a random sample of 60 claims against households that were established (i.e., confirmed as being an overpayment after first being listed as a possible overpayment) between July 1, 1997 and June 30, 1998 and noted the following problems:

- CFC did not establish claims in a timely manner, once discovered. Once discovered, claims must be established by the end of the next quarter.
- CFC did not act promptly to inactivate and forward claims to the Collections Branch in the Division of Administrative Reviews.
- CFC did not submit claims to the Collections Branch within 30 days when payments were not received.
- CFC personnel stated that delays in establishing claims were due to understaffing.
- The KCA database, which tracks claims being pursued by local DSI offices, and the KCL database, which tracks claims that are being pursued by the Collections Branch of CFC, are separate files which have limited interface with each other. This scattering of information in more than one location makes tracking much harder. In addition, information can get lost when claims are transferred from one database to the other.
- The KCA system does not generate a report to remind field office personnel to inactivate claims, or to forward inactive claims to Collections, after an appropriate amount of time.

Based on our audit, we conclude that the Cabinet for Families and Children has materially misrepresented its corrective action plan.

Collecting overpayments is more difficult when claims are not established timely, as recipients often are no longer receiving benefits which can be reduced (the preferred and usual means of recovery), they may have moved leaving no address, and fraud cases are harder to prosecute.



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-6: The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program (Continued)**

Field Services Operation Manual, Vol. I, section 1800 says, “Repayment must be pursued on all overpayments discovered on or after 4/1/82, regardless of the amount or when the overpayment occurred.”

904 KAR 2:016, Section 10 (1) says, “Necessary action will be taken promptly to correct and recoup any overpayments.”

Good accounting practice dictates that overpayments be identified and pursued promptly to maximize the likelihood of full recovery.

**Recommendation**

We strongly recommend that the KCA and KCL databases, now separate files for claims being pursued locally and claims being pursued by Collections, be fully integrated. We understand that KCL is to be completely rewritten in the immediate future to make it Year 2000 compliant. However, an integrated system, capable of tracking a case from day one, would greatly improve the efficiency of collection efforts.

We also recommend adding to the KCA system an automatic reminder to field office personnel to inactivate claims, and to forward inactive claims to the Collections Branch, after an appropriate amount of time, when payments are not received.

**Management’s Response and Corrective Action Plan**

*Effective March 1, 2000, the KCA, KCL and KAMES databases will interface. Once a claim is established, the worker is no longer required to transfer the claim, impose benefit reduction or send any type of notice or repayment agreement. All of these will be system driven and generated. A spot check is unnecessary.*

*Except for the creation of some new reports (i.e. automation of those still done manually) and new software to deal with changes in the federal government’s methods of identifying debts for tax refund interception, the rewrite of KCL is complete and Y2K compliant. The new KCL system is presently being integrated more fully with KCA and KAMES to allow for correct and prompt identification of inactive claims and the transmitting of same as they are transferred among KAMES, KCA, and KCL. Mr. Bob Overberg of the claims section within the Cabinet’s Department for Community Based Services is directing and coordinating this project to improve the interfacing of the three databases and the tracking of claims.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-7: The Cabinet For Families And Children Should Ensure That Complete Records Are Maintained For TANF Recipients**

State Agency: Cabinet for Families and Children

Federal Program: 93.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility For Transportation Costs Under Kentucky Works

Amount of Questioned Costs: None

The FY 1997 audit of the Cabinet for Families and Children disclosed a reportable condition relating to transportation payments to participants in the Kentucky Works program.

During FY 1997, we tested a sample of 55 cases and noted that 21 cases did not have adequate documentation to determine the validity of the payments, resulting in questioned costs of \$1,266; seven cases could not be located at all; one case, verification of college attendance was not located; and, six cases, the recipient traveled either more or fewer days than estimated, but no effort was made to recoup overpayments or reimburse underpayments. The agency, in its response, indicated that it would emphasize to field staff the importance of ensuring that complete records on each case are created and maintained. However, during testing for the FY 1998 audit, we found that the deficiencies have not been corrected.

Specifically, for the FY 1998 audit, we tested and evaluated the internal controls in place over Support Services, part of the Kentucky Works initiative of the TANF program. We selected a random sample of 60 payments for transportation costs incurred by participants in Kentucky Works between July 1, 1997 and June 30, 1998 and noted the following problems:

- All documentation was missing for 8 out of 60 payments tested
- Five recipients did not attend class and did not provide a “good cause” for absence
- Five cases in which CFC did not take appropriate action to recover overpayments. If so, there was no documentation to show that the agency had taken appropriate action to recover overpayments or adjust underpayments

Based on our review, we conclude that the Cabinet has materially misrepresented its corrective action plan.

The agency is not in compliance with 45 CFR 255.4(j)(1). Failure to recover overpayments overstates allowable transportation expenditures.

45 CFR 255.4(j)(1) states: “The state must take all reasonable steps necessary to promptly correct any overpayments to a recipient or service provider.”

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-7: The Cabinet For Families And Children Should Ensure That Complete Records Are Maintained For TANF Recipients (Continued)**

**Recommendation**

We recommend that CFC Field Office supervisors emphasize to all caseworkers the necessity of ensuring that complete records on each case are created and maintained.

**Management's Response and Corrective Action Plan**

*We will emphasize in training sessions as well as staff meeting the importance of the completion and maintenance of the verification forms. As we move toward statewide implementation of Empower Transportation, there will be less and less direct payments made to the client. Eventually, no transportation payments will be made directly to the client. Some of the "missing" verification may be due to participation in JRA. Transportation for JRA does not require a form to be completed. The payment automatically made for JRA. Without knowing the cases involved, we are unable to determine if this is the situation. If you can identify the specific cases, we can follow-up.*

**FINDING 98-CFC-8: The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program**

State Agency: Cabinet for Families and Children

Federal Program: 93.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility For Nonrecurring Costs Under Kentucky Works

Amount of Questioned Costs: None

The FY 1997 audit of the Cabinet for Families and Children disclosed a reportable condition relating to payments made to participants in the Kentucky Works Program. We tested a sample of 57 PA-32 documents that reflect nonrecurring payments to participants in the Kentucky Works Program and noted numerous problems with these payments. In its response to the finding, the agency agreed with our recommendations indicating that field service staff would be advised to obtain and review all forms before payments were made. However, we tested payments again during FY 1998 and found that the deficiencies in this area have not been corrected.

Specifically, we reviewed a sample of 60 PA-32s that reflect nonrecurring payments to participants in the Kentucky Works Program and noted an overall lack of documentation and numerous clerical errors in the handling of these payments:

- All documentation was missing for 5 of 60 payments sampled; these were "code 50" payments

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-8: The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program (Continued)**

- All documentation was missing for one “code 20” payment
- Twelve were not signed by the participant and the provider
- Five expenditures exceeded the maximum amount entered on the PA-32
- Five providers did not return their PA-32s within 30 days
- Five providers did not complete the provider’s portion of the PA-32

Because the Cabinet failed to consistently follow existing internal controls, the Cabinet cannot be assured that all payments for nonrecurring expenses were valid and authorized payments. And, therefore, we conclude that the Cabinet has materially misrepresented its corrective action plan.

The PA-32 Procedural Instructions are presented in the DSI Division of Field Services’ Forms Manual. The instructions include detailed descriptions of how the PA-32 should be completed by case workers.

- 45 CFR 92.20(a)(2) states: “Fiscal control and accounting procedures of the State . . . must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”
- 45 CFR 92.42(b)(1) states “. . . records must be retained for three years from the starting date specified in paragraph . . . ”

A strong internal control structure dictates that procedures be followed to ensure that payments are made only for approved, allowable, goods, and services.

**Recommendation**

The Cabinet for Families and Children should ensure that records are produced and maintained to adequately support TANF expenditures. Because the problem of missing documentation is so pervasive, we recommend that CFC consider developing new procedures for maintaining participant files.

We also recommend that Division of Field Services supervisors reiterate to all case workers the importance of completing and reviewing all forms before payments are approved.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-8: The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program (Continued)**

**Management's Response and Corrective Action Plan**

*There is no documentation other than in the Comments in the case record concerning code 20 payments. No forms are completed for the code 20 payments. There is no time frame for providers to return the PA32 forms. The client has 30 days to take the form to the provider.*

*We will emphasize in training as well as staff meetings the importance of the completion and maintenance of the forms. We will also emphasize the importance of completing and maintaining the logs.*

**FINDING 98-CFC-9: The Cabinet For Families And Children Should Develop A System To Track TANF Recipients Who Refuse To Cooperate In Establishing Paternity**

State Agency: Cabinet for Families and Children

Federal Program: 93.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions-Child Support Non-Cooperation

Amount of Questioned Costs: None

TANF recipients who refuse to cooperate with the Cabinet for Families and Children in establishing paternity are classified in the KAMES system as "389 Disqualifications" and their TANF benefits are reduced by 25 percent or terminated altogether. While "389 Disqualifications" are shown in the KAMES system, disqualification information is only available for those individuals who are currently receiving reduced benefits.

The Cabinet does not maintain current or historical records of the individuals who have been classified as "389 Disqualifications" for non-cooperation in establishing paternity or in establishing, modifying, or enforcing a child support order. The KAMES system does not produce reports that show historical data.

The Cabinet does not track "389 Disqualifications" or produce a report of those individuals who the Division of Child Support has determined require a benefit reduction/termination due to non-cooperation. Therefore, there is no system in place for monitoring the cases referred by the Division of Child Support for benefit reduction/termination due to non-cooperation.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-9: The Cabinet For Families And Children Should Develop A System To Track TANF Recipients Who Refuse To Cooperate In Establishing Paternity (Continued)**

The Cabinet's compliance with OMB Circular A-133, 4-93.558-10, section N (1), cannot be determined. The cases that have been classified as "389 Disqualifications" cannot be reviewed for completeness and accuracy by the Cabinet or the auditing agency. In addition, those cases referred to DSI for non-cooperation which have not had their benefits reduced or eliminated cannot be monitored or tracked; thus, preventing the Cabinet or auditing agency from determining the amount of TANF funds which should have been recovered from such cases. Finally, failure to monitor and track "389 Disqualifications" could result in overpayments to TANF recipients who should have had their benefits reduced.

OMB Circular A-133, Subpart C, section .300, says, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its Federal programs."

OMB Circular A-133, 4-93.558-10, section N(1.) says, "If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 42 USC 609(a)(8))."

45 CFR 92.20 (a)(2) says, "Fiscal control and accounting procedures of the State . . . must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

**Recommendation**

We recommend that the Cabinet for Families and Children develop policies and procedures for monitoring and tracking TANF cases which are determined by DCS to be "389 Disqualifications" due to non-cooperation in establishing paternity or in establishing, modifying, or enforcing a child support order.

**Management's Response and Corrective Action Plan**

*We will research the possibility of a system spot check and tracking of the non-cooperation identified by DCS or the contracting official.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-10: The Cabinet For Families And Children Should Monitor Day Care Centers That Receive Grant Monies Through The Child Care And Development Fund**

State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

Kentucky day care centers can receive start-up and mini-grant contracts through the Child Care and Development Fund for up to \$30,000 for training, equipment, and payroll needs to improve the quality of their services.

The Cabinet does not adequately monitor how well these day care centers comply with laws and regulations in the use of mini-grant funds; thus, grant funds may be used inappropriately. And, the Cabinet does not audit the mini-grant contracts except when fraud is suspected.

Although audits of contracts for less than \$300,000 are not required by statute, good accounting practice suggests that at least a sample of contracts be audited each year. While each contract is for no more than \$30,000, when combined, the mini-grant contracts totaled \$5,240,535 in FY 1998.

**Recommendation**

We recommend the Cabinet's Contract Monitoring Branch select a sample of day-care providers to be audited by OIG each year, in addition to their quarterly monitoring.

**Management's Response and Corrective Action Plan**

*Beginning with Fiscal year 1999-2000, the Division of Outcome Based Contracts, Contract Accountability Branch, will complete fiscal monitoring of a minimum of 10 percent of childcare start-up and mini-grant providers. The monitoring will be based on a random sample of contractors in at least 5 of the 16 Cabinet's service regions. The plan will be to monitor a sample of centers by Region on a rotating basis.*

**CABINET FOR FAMILIES AND CHILDREN  
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FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-11: The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund**

State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs and Eligibility

Amount of Questioned Costs: None

The Child Care and Development Fund (CCDF) subsidizes child care expenses for low-income families. On January 1, 1998, billing and eligibility determination functions for CCDF were transferred from the Cabinet for Families and Children to five outside service agencies under contract.

We tested the case files of 55 families whose eligibility was determined by the service agencies and noted the following weaknesses:

- Twenty-six files did not contain all documents necessary to verify eligibility; documentation of eligibility by the service agencies was weak overall.
- Twelve of the 55 families whose co-payments were calculated by the service agencies were incorrect. The parents' share of child care fees (the co-payment) was often incorrectly determined: two, due to incorrect calculation of the families' income; six, due to incorrect use of the sliding scale of parent fees; and four, due to both causes.
- Two families did not have eligibility re-determined by June 30 and were not terminated for cause.
- One family, who was not even eligible for state-subsidized child care, was incorrectly determined to be eligible.

CFDA 93.596:113 (federal regulations governing CCDF) and CFDA 93.575:113 (governing CCDBG) both state that "[p]roper grant accounting records must be maintained."

OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations," Compliance Supplement states, "Costs must be reasonable and necessary for the performance and administration of Federal awards."



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-11: The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund (Continued)**

**Recommendation**

The Cabinet for Families and Children should require service agency personnel to obtain and maintain copies of all documents needed to verify a family's eligibility for assistance. Documents that would support a family's eligibility for assistance include the following items:

- Contract, signed by the parent, child care provider, and authorized service agency counselor
- Identification for all members of the family, such as social security cards or driver's license
- Proof of the date of birth for each child for whom child care will be subsidized. Social Security cards do not indicate the child's date of birth or parentage, while birth certificate do provide this information
- Proof of special need for any child whose care will be subsidized at the special needs rate
- Evidence of the family's income, including the most recent month's pay stubs, as well as independently obtained information regarding other public assistance that a family may have received

We also recommend that, if the computer system (KCCMS) is not relied upon to calculate monthly family income, service agency personnel should receive additional training in calculation of this figure. This will aid in correctly determining the family's income, co-payment, and the state's share of the provider's daily rate.

**Management's Response and Corrective Action Plan**

*Each counselor will receive written notice as to what should be included in a case file. The Division of Child Care will require service agents to provide an updated list of counselors. As staff turnover occurs, service agents will provide new counselors with the above information. Training will be provided to service agents at least two times per year. The forum for this will be the monthly service agents' meeting. Information will also be detailed in the revised Handbook. Additionally, the current Handbook includes information on how to calculate income.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-12: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Compliance With Health And Safety Requirements**

State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

The Cabinet for Families and Children and its sub-recipients, the five service agencies, did not maintain adequate records to determine which unregulated child care providers were required to enroll. Enrollment is required of unregulated providers who are not related to the children they baby-sit, to ensure that they meet minimal health and safety requirements.

We tested 11 unregulated providers who were not related to the children they cared for in FY 1998, and who, therefore, should have been enrolled; only 4 of them were enrolled. Thus, the state is not in compliance with federal requirements to register unregulated child care providers to ensure that they meet the minimal requirements.

The aforementioned weaknesses are the result of the state's new computer system, KCCMS, installed on January 1, 1998, to track all billing and eligibility information. Because KCCMS does not identify which unregulated providers should enroll, the service agencies may have difficulty tracking providers' compliance or acting to terminate payments to providers who are not in compliance.

Auditors were unable to test for compliance with state policies concerning required documents for enrollment of providers. We were unable to draw any statistically useful conclusions from a review of only four enrolled providers. In addition, we were unable to determine whether the Cabinet or service agencies acted to terminate payments to providers who failed to enroll.

CFDA 93.596:113 and CFDA 93.575:113 both state that "[p]roper grant accounting records must be maintained."

45 CFR 98.45 requires that all child care providers not licensed or certified be registered prior to receiving payment. 45 CFR 98.41 requires that all providers, other than relatives of the child, meet "requirements designed to protect the health and safety of children . . ."

The "Service Agent Child Care Assistance Handbook," Guideline #7, states that "an unregulated non-relative provider shall become enrolled to meet minimal health and safety requirements."

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-12: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Compliance With Health And Safety Requirements (Continued)**

**Recommendation**

We recommend the Cabinet for Families and Children:

- Change the “Provider Type Codes” in the KCCMS system to distinguish between the types of unregulated child care providers
- Monitor providers’ compliance with enrollment requirements

**Management’s Response and Corrective Action Plan**

*Beginning January, 1999, DIS generated a list of every provider by type that was in KCCMS. This list was then cross-checked with the directories for certified homes, and enrolled providers. The list was sent to the service agents in the early spring to investigate the status of each provider and obtain any necessary documentation. This documentation is currently being checked and processed by the Department of Child Care enrollment staff. In addition, DIS is presently developing a process [allowing] a distinction to be made between types of unregulated child care providers.*

**FINDING 98-CFC-13: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained**

State Agency: Cabinet for Families and Children

Federal Program: 93.658-Foster Care Title IV-E

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$4,325

The Cabinet for Families and Children is responsible for administering the Foster Care Title IV-E Program, placing children in foster homes and ensuring that caregivers meet the eligibility requirements. Children who are placed in the custody and care of the state live in foster homes until such time that they can be adopted or returned to their biological parents. The caregivers for these children receive monthly assistance from the Cabinet to provide for their basic needs.

The FY 1997 audit of the Cabinet for Families and Children disclosed a reportable condition regarding missing documentation and late eligibility redeterminations. The Cabinet disagreed with our findings and recommendations and stated that all future Foster Care Title IV-E cases would be recorded in the TWIST system. However, during the FY 1998 audit, we noted similar problems.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-13: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained (Continued)**

Specifically, we tested a sample of Foster Care Title IV-E case files for adequate internal controls, compliance with federal regulations, and compliance with the eligibility sections of CFC's Foster Care Title IV-E program manual. During our review, we noted the following exceptions:

- Five missing social security cards out of 70 case files examined
- Nine missing DSS-110 forms
- Four missing DSS-111A or DSS-114 forms (provider contracts) out of 65 case files examined
- Ten late eligibility redeterminations out of 65 case files examined
- Seven instances of the rates not agreeing from the DSS-111A or DSS-114 to the DSS-110

Internal controls over eligibility and reimbursements were not adequate to ensure compliance with federal regulations. To ensure compliance with federal regulations, for each case there should be an observable record of documents used to determine eligibility and to determine that the correct reimbursement rates were applied; thus, each time an eligibility redetermination or a rate change is effected, case files should be updated.

Based on the results of our audit, we conclude that the Cabinet has materially misrepresented its corrective action plan.

A child's last name can change for many reasons. A copy of the child's social security card should be included in the case file to prevent the same child from erroneously receiving benefits under two different last names.

By not including the DSS-110s in the file, there is no way to determine or verify that the DSS-110 was audited for the application of the correct rates and reasonable expenditures.

Failure to have an updated DSS-111A or DSS-114 could result in erroneous payments to foster homes. The lack of DSS-111As or DSS-114s in the file resulted in \$4,325.38 of actual questioned costs charged to the federal government. When the error is projected to the population, the result is \$358,924.54 in questioned costs charged to the federal government.

Failure to make timely redeterminations could result in payments to foster homes on behalf of children who have lost their reimbursability.

Good internal controls dictate that eligibility for Foster Care program be adequately documented. The state is responsible for the care and placement of foster children. Whether or not the state meets the responsibility can best be determined through the examination of case files and the documents in the case files.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-13: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained (Continued)**

Public Law 96-272, Section 475(5)(B) of Part E requires that all foster care cases be redetermined every 6 months.

The DSS Program Manual, Chapter IV, Family and Children Services, states that the DSS-111A brings the foster home contract into effect for a particular child. It states at the time the child is placed in foster care, the worker should complete section A and B of the DSS-111A and take it to the foster parent to sign in section C. The Out of Home Section in Chapter IV of the DSS Program Manual requires that the DSS-111A be updated when a rate for a child already in foster care is changed.

**Recommendation**

We recommend that the Cabinet for Families and Children:

- Develop procedures to ensure that copies of the child's social security card and DSS-110s are maintained in the child's case file.
- Complete DSS-111As when a child is placed in a foster home *and* when the rate changes for a child already placed. These forms should be retained in the case file.
- Perform redeterminations of reimbursability every six months. The redeterminations should be documented on the DSS Form 1262 and placed in the child's case file.

**Management's Response and Corrective Action Plan**

- 1) *Five missing social security cards out of 70 case files examined; Attached is a memo from Gary Dodge, Institute For Human Services Management, Inc., consultant to Cabinet for Families and Children, and ACYF PA 86-01, dated 2-25-86. The PA states unequivocally that IV-E does not require a social security number, or the presentation of a social security number to achieve or sustain IV-E eligibility. The policy on page 3 has been highlighted for your benefit and it has been in effect since 4-1-85. We have addressed this in previous years' responses. We will make every effort to obtain a social security card, but it is not an error if no card is in the case.*
- 2) *Missing DSS 110's: seven of the missing 110's were provided by Imprest Cash; one of the exceptions was a group home and is a state owned facility and does not require a contract or 110. Another exception was for a missing placement history log; this is attached. One exception was outside the audit period and no 110's were required for that placement. The auditors reviewed all 110's the week of July 19-23, 1999.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-13: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained (Continued)**

**Management's Response and Corrective Action Plan(Continued)**

- 3) *A request for corrected DSS 111 A's, or missing DSS 111 A's will be made. The documents will be provided to the auditor. There was one exception and that case does not require a 111A. That exceptions placement was a state group home.*
- 4) *For the DSS 111 A, one exception has been reviewed by the auditor and is correct. The DSS 111 A and DSS 114 for another exception was provided to the auditor.*
- 5) *Past due redeterminations noted in the record of noncompliance will be completed and provided to the auditor. Claim adjustments will be made if necessary. ACYF-PIQ-85-6, U.S. Department of Health and Human Services, pages 4-5, question 3 states that failure to hold a timely redetermination is a program issue, rather than an eligibility issue for IV-E. Federal Regulations is silent on the number of months for redetermination. State Policy 90.3 requires redetermination every 12 months. This change was made due to the heavy caseload carried by CBW's.*
- 6) *The implementation of foster care payments through TWIST should eliminate any threat of error in regards to DSS 111A's and DSS 110's of rates not agreeing. Policy requires notification to the CBW, of change in placement and rates. TWIST currently provides notification through ticklers (generated by FSW input in cases) when a child enters care, exits care, or changes placement, income, assets or custody. This alert allows CBW's to make changes in eligibility (if a child returns home) or reimbursability (if income, resources, deprivation or placement changes). A formal redetermination will be completed in TWIST, using the DSS 1262, every 12 months as required by policy.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-14: The Division Of Child Care Should Complete The Development Of A Formal Disaster Recovery Plan**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

During the audit period under review, the Division of Child Care did not have a formal Disaster Recovery Plan in effect. There was an effort made to develop a Disaster Recovery Plan. However, the plan is currently incomplete.

The Disaster Recovery plan was lacking information in several areas, including:

- Identification of critical data
- Steps for the regeneration of application and system files
- Updated agreements with the Department of Information Systems
- Training employees on the recovery plan
- Testing of the recovery plan
- Identification of critical offsite locations
- Detailed plan for backup and recovery procedures for hardware housed in the computer center

Not having a complete business recovery plan increased the possibility of loss due to excessive recovery time and costs, and disruption of Kentucky Child Care Management System (KCCMS) processing capabilities. During the fiscal year, there were \$23,456,000 of payments processed through KCCMS.

Good management practices minimize risks through planning. The goal of a business recovery plan is to improve preparedness and recover normal operations at minimal cost, using available resources.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-14: The Division Of Child Care Should Complete The Development Of A Formal Disaster Recovery Plan (Continued)**

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**Recommendation**

We recommend that the current Disaster Recovery Plan be further developed. The final plan should include:

- Identification of critical data
- Steps for the regeneration of application and system files
- Updated agreements with the Department of Information Systems
- Training of emergency personnel on the recovery plan
- Testing of the recovery plan
- Expanded backup or manual procedures to be followed for business continuity in the case of extended disruption and/or the inability to use the CHR building
- Identification of critical locations offsite
- Detailed plan for backup and recovery procedures for hardware housed in the computer center

In addition, we recommend that the Disaster Recovery Plan be distributed to all emergency personnel and updated periodically to include any new applications or systems.

**Management's Response and Corrective Action Plan**

*Each payment run allows the Division of Child Care to capture/identify an updated address. Additionally, DIS is working on a report which would pull all provider information such as provider/vendor I.D., phone numbers, address, type of provider tax information and list of children served. This would be a crystal report that would be run in hard copy form at least monthly. The Division has also requested a crystal report that would list active clients, eligibility, eligibility dates, children, age, provider the child is attached to, rates and parental co-pay. This is also critical data for payments and part of disaster recovery process.*



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-14: The Division Of Child Care Should Complete The Development Of A Formal Disaster Recovery Plan (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

*If the KCCMS system is down and then recovers, the Service Agents would enter data from existing hardcopies. This allows for regeneration of the files. It is the understanding of Division of Child Care, that updated agreements with DIS are negotiated with OTS. Training for employees on the recovery plan is scheduled for October and November. The Division staff authored the plan and reviewed it with the KCCMS team during standing weekly meetings, as well as during a meeting with the Service Agents.*

*The critical offsite locations identified in the contingency plan were the DIS office and Service Agents' offices. Each of these entities have developed their Disaster Recovery plan and submitted them to the Division of Child Care to coordinate a response that enables functioning to continue. Since OTS and DIS maintain the hardware, and DIS completes the back up, plans for recovery for these agencies should be housed therein.*

*The Division of Child Care has submitted its contingency plan and is awaiting approval.*

**Auditor's Response**

The CFC management response and corrective action plan for the Division of Child Care did not adequately address the problems or concerns presented in the comment for Disaster Recovery. We acknowledge the effort to compile the initial draft for the Disaster Recovery Plan. However, an adequate business contingency plan will need specific points accentuated:

- Document all steps necessary to regenerate application and system files to include the detail plan for backup and recovery procedures for business continuity during an extended disaster.
- Update, formalize, and distribute the Disaster Recovery Plan to all system employees.
- Identify key employees and schedule frequent testing dates to determine the success of a recovery during a simulated disaster.

The Division should identify one or more individuals to direct the business contingency effort and maintain the document with current information. Additionally, the Disaster Recovery Plan should be included in all efforts of new employee orientation.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-15: The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

The Division of Child Care did not provide adequate security for the Kentucky Child Care Management System (KCCMS). Formal security authorization procedures were in place directing the establishment, modification, or revocation of system access to KCCMS. However, these procedures were not consistently followed during the fiscal year. Our review revealed the following exceptions:

- Users were granted clearance to KCCMS application programs, data files, and the operating system. The System Administrator would accept phone calls and e-mails from employee supervisors as a means for requesting employee system access. Documentation was not adequate to provide sufficient evidence of the requests and/or subsequent access level changes granted to users.
- Users did not consistently complete a Security Action Request and Employee Confidentiality/Security Agreement.
- The KCCMS system does not force users to change passwords on a periodic basis, nor are users locked out for invalid log-in attempts or inactivity.

Consistent application of formalized security policies provides continuity for policy implementation and sets the tone of management concern for strong system security. They provide a security framework used to educate management and users of their security responsibilities. Further, the propriety of system access levels granted cannot be ensured without properly documented and approved access requests. Levels of system access granted to users should be restricted to areas necessary for the employee to perform assigned job duties.

**Recommendation**

We recommend the Division of Child Care take the following steps to improve the logical access security function:

- The Security Action Request form should be updated to include fields that denote specific systems for which access is being requested. This is necessary for the System Administrator to ensure access granted for each user is correct.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-15: The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System (Continued)**

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**Recommendation (Continued)**

- The Security Administrator should make certain that all request forms are completed and approved to ensure proper access level and accurate service agency role.
- The Security Administrator should request Security Action Request forms for all employees who currently have access to KCCMS and do not have a completed form on file.
- All system users should read and acknowledge by signing the Employee Confidentiality/Security Agreement. The Security Administrator should retain these forms.
- The Security Administrator should retain all Security Action Request and Employee Confidentiality/Security Agreement forms to support authorization of user access. These forms should be retained for audit purposes as long as the requested access remains in effect.
- The System Administrator should implement password change controls that forces all users to change their password on a periodic basis. The Security Administrator should implement a lockout feature that would revoke user access after three (3) unsuccessful attempts.

**Management's Response and Corrective Action Plan**

*All user requests for access to KCCMS will require a signed request from the Service Agents. No new access will be granted without this form being completed and sent to the systems administrator. This form will also be updated to include the level of access being requested. In addition to the request forms, a signed confidentiality/security agreement must be on file before access will be granted.*

*The Office of Technology Services is in the process of revising the current Security Action Request form to include the type of access the user is requesting. Also, the state confidentiality/security form is being revised to reflect the requirements of the KCCMS contract staff. These actions are to be completed by September 30, 1999. With this action, all staff will have current security action forms and confidentiality/security forms on file with the KCCMS systems administrator.*

*User password change control will be altered with the migration of the KCCMS as described in the Y2K response. This will require network logon procedures as opposed to logging into the KCCMS application through the AIX/Unix operating system. Current network access is denied after three failed attempts and requires a network administrator intervention. This will remedy the unlimited attempts users now have.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-16: The Division Of Child Care Should Continue To Monitor, Upgrade, And Test All Systems To Ensure Accurate Processing In The Year 2000**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

The Division of Child Care within the Cabinet for Families and Children has not completed all necessary modifications for the Kentucky Child Care Management System (KCCMS) to be Year 2000 compliant. The AIX/UNIX operating system, Oracle applications, and SQL Net components of that system are not yet compliant.

Following the period under review, the application software for KCCMS was certified as compliant. However, only after all KCCMS components are Year 2000 compliant will these applications be capable of functioning. The applications must process on a viable system in order to operate.

Consistent with the report, Year 2000 Tools and Methodologies Review, performed by Keane, Inc. dated December 18, 1999, CFC has coordinated Year 2000 efforts to include all its agencies and documented the success of those efforts on a monthly basis. Monthly reports provide project status and indicate that all agencies continue to complete work in the categories of documentation, management and reporting, technical readiness, business contingency, inventory, and business suppliers and providers.

The components that are currently noncompliant are significant to the KCCMS processing environment and will require upgrades. The Year 2000 Project Manager has identified all pertinent tasks and prepared a timeline for tracking them through completion by the date of September 30, 1999. Discussions reveal that the Office of Technical Services made arrangements with the respective vendors to upgrade the operating system and application software.

**Recommendation**

We recommend the Division of Child Care continue with the necessary steps to ensure KCCMS and applicable programs are Year 2000 compliant. We recommend that any necessary modifications and/or replacements be accomplished no later than July 31, 1999, so modifications to the system can be properly documented and tested for accuracy.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-16: The Division Of Child Care Should Continue To Monitor, Upgrade, And Test All Systems To Ensure Accurate Processing In The Year 2000 (Continued)**

**Management's Response and Corrective Action Plan**

*A vendor proposal has been accepted and implementation has begun for conversion of the KCCMS related software including the operating system to Y2K compliant products. In addition, the vendor is assisting DIS in migrating the application to the IBM SP Processor which is Y2K compliant. This work is scheduled to be complete by 10/31/99.*

**FINDING 98-CFC-17: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape**

State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

During fiscal year ended June 30, 1998, the Cabinet for Families and Children did not develop or implement formal procedures to ensure the accuracy and completeness of KCCMS information submitted to the Statewide Accounting and Reporting System (STARS). An interface was developed to allow KCCMS to transmit child care related payment information to STARS for check creation and recording purposes.

Our reconciliation revealed that the information recorded within STARS for fiscal year 1998 KCCMS payments was incomplete. The following discrepancies were noted:

- Four batches of purchase orders noted within KCCMS for the period could not be traced to STARS. These four documents processed (PODC0009-0011 and PODC0014) totaled \$213,574. Since these documents could not be traced to STARS, we could not ensure payment was made to these providers.
- Variances were noted between STARS and KCCMS on-system payment batches 1-91 processed during the last half of fiscal year 1998 totaling \$200,011. The net affect in this case was that KCCMS payments exceed the STARS amount.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-17: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape (Continued)**

We noted adjustments made within STARS that were not recorded within KCCMS. These adjustments had reduced STARS payments by \$179,578. This caused KCCMS to be overstated by that amount since it did not reflect these payment adjustments.

- One of the five service agents with which the Commonwealth contracts to oversee and process child care provider reimbursement requests (Community Coordinated Child Care (4Cs) was approved to issue provider payment checks from their system to pay applicable providers. CFC must extract this information from the KCCMS – STARS interface file in order to pay 4Cs in a lump-sum check. This special process began in May of 1998. However, it was not until February 1999 that formal procedures were implemented to ensure payments to 4Cs were reconciled with extracted KCCMS data. Our review revealed that from May 15, 1998 through closeout of the fiscal year ended June 30, 1998, a variance of \$38,783 developed between recorded KCCMS and STARS data related to 4Cs payments. In this case, the total payments per KCCMS exceeded STARS. This amount is included in the variance noted in the second bullet noted above.
- We noted several instances where batch numbers had been deleted within KCCMS. For the last six months of fiscal year 1998, those transactions totaled \$150,444. We were able to match the majority of those dollars to actual documents within STARS. However, approximately \$13,768 could not be matched with processed STARS transactions. This amount is included in the total for the second bullet noted above.

In summary, our audit revealed that payment totals within KCCMS exceed STARS totals by \$379,589. This is approximately 1.6% of the total on-system payments processed during that time period. Additionally, some critical fields within KCCMS were blank.

The primary reasons for these problems appear to be due to personnel changes, the lack of direction by CFC management, and the failure to develop and implement formalized procedures requiring DCC and the CFC-Office of Technology Services (OTS) personnel to monitor processing and output control totals for accuracy and completeness.

Failure to establish proper controls for ensuring the accuracy and completeness for data processing and output can result in incomplete or inaccurate system information and could affect any related payments.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-17: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape (Continued)**

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**Recommendation**

We recommend formal policies and procedures be developed for OTS and DCC to ensure that the STARS generated interface file is accurate and complete according to KCCMS data. We further recommend that control procedures be developed and implemented to ensure that information recorded within STARS corresponds to the processed STARS interface file data, and that critical fields within KCCMS are complete. We realize that the new Commonwealth Management and Reporting System may alleviate the STARS interface concerns since a check writer system will be utilized for KCCMS related payments. However, this will still entail the creation of a check tape, which should be controlled just as the STARS interface file generation should be. Finally, we recommend CFC management reevaluate the necessity of letting 4Cs process their provider's checks independently.

**Management's Response and Corrective Action Plan**

*CFC has focused on developing a procedure process of KCCMS payments to ensure consistent detailed accuracy. Note the following implementations:*

- *Beginning February 99, a KCCMS payment procedure manual was developed and utilized. This entailed changing the process with 4C's. 4C's must reconcile with the extracted KCCMS data prior to issuance of payment to 4C's. This action resulted in the elimination of overage and shortage of payments to 4C's*
- *Initiated an active working relationship with CFC Accounting Branch by providing a detailed weekly journal voucher. KCCMS and MARS payment totals will be reconciled by establishing a summary spreadsheet to document the variances between MARS payment adjustments and KCCMS system total for each payment run*
- *Created a weekly payment log, used to track payments to 4C's. This documented the adjustments with refund received from 4C's. This further validates the change to reconciliation prior to issuance of payment to 4C's resulted in balanced expenditures and encumbrances*
- *Re-developed the filing system of weekly KCCMS payment records. Weekly file to contain hardcopy of stars interface register, KCCMS - 4C's system printout, detailed summary sheets of 4C's with faxed request of payment amount from 4C's and MARS check writer system payments, MARS generated payment reports, and all e-mails to/from Finance & Treasury in reference to that weeks payment run*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-17: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

- *Current planning of relocation of Division of Child Care, a central filing area will be established for KCCMS files.*
- *With MARS implemented, Cross-training is scheduled for the designated back up to the primary for KCCMS/MARS payments. As noted above, the payment procedure manual is used step by step too insure consistency and accuracy*
- *Re-evaluation of 4C's contract scheduled, with decision to amend based on the evaluation of current 4C's payment process to current MARS payment process. This evaluation will be the determining factor to insure consistency and accuracy of payment process*

**FINDING 98-CFC-18: The Division Of Disability Determinations Should Improve Program Modification Procedures**

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State Agency: Cabinet for Families and Children  
 Federal Program: 96.001- Social Security-Disability Insurance  
 Federal Agency: U.S. Department of Health and Human Services  
 Pass-Through Agency: Not Applicable  
 Compliance Area: Internal Controls  
 Amount of Questioned Costs: None

As noted in the prior audit period, the Division of Disability Determinations (Disability) did not develop and implement formalized policies and procedures to properly control program modifications.

Disability Determination System has contracted with an external software vendor, I. Levy & Associates, Inc., who supports the Disability Determination Tracking System (DDS). I. Levy & Associates performs the requested program modifications for DDS. Users informally submit program modification requests to the employees of the Systems Operation Section (SOS). The employees of SOS have meetings to discuss the suggested application changes. Once an agreement is reached as to the required program modifications, the request is entered into a log.



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-18: The Division Of Disability Determinations Should Improve Program Modification Procedures (Continued)**

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At this point, a Disability employee contacts the external vendor to request a program modification. Our audit revealed that one employee within SOS was primarily responsible for coordinating program modification requests process with the software vendor. This process consists of the SOS employee sending a fax, e-mailing via the Internet, or simply placing a telephone call to the software vendor. The auditor noted that a file was maintained by SOS that contained copies of modification requests with handwritten notes on the copies. These copies and notes were used to informally track the requests. The status of the requested program modifications could not easily be determined.

Following the period under review, a tracking system database was designed, but not implemented. This database will track system program changes as well as prioritize requests. The auditor observed the designed template containing fields available to capture the date of request, the due date to complete the request, the date of test, and program change status. Once implemented, this system will satisfy most prior year recommendations relating to program modification. In addition, this system will provide information for library maintenance and control, an audit trail of changes for each modification, and will prompt for program modification tests. Information System (IS) personnel tested this database during our fieldwork period.

The IS Department receives program changes from the software vendor as zip files without encryption. Discussions revealed that a testing facility was frequently used by the IS Department; however, on occasion, this facility was not used to test significant changes. IS personnel stated that all program modifications will be tested prior to placing them into production, regardless of the modification level. However, the testing that was performed was not documented.

One employee is responsible for moving program modifications into production. That employee also acts as a backup security administrator with full system access, including access to the source code. No procedure was in place to document that each change was reviewed and approved by appropriate personnel. Further, failure to maintain proper segregation of duties for programmers and systems support personnel increases the potential that unauthorized changes could be made to programs, data files, or operating systems. Employees should be granted the minimum access necessary for completion of job responsibilities.

For significant program modifications, the IS Department utilized the training department for formal employee training. The auditor noted a Personalized Disability Notice (PDN) users guide that new users are given when their training is completed. The auditor also noted a technical PDN manual that described how the PDN module works. Typically, IS Department personnel load the modifications onto the computer system, then personally test the changes. If the acceptance testing is successful, the program is released into production. The users then provide feedback if they experience any problems with the program. The testing and feedback process is informal (i.e., the IS Department is notified through personal contact, e-mail, or telephone).

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-18: The Division Of Disability Determinations Should Improve Program Modification Procedures (Continued)**

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Formalized policies and procedures are needed to ensure procedures to authorize and approve program modifications are consistently applied. Further, policies and procedures are required to ensure the development of technical and user documentation, library maintenance and control, sufficient user training, standardized testing requirements, adequate tracking of requests, the transfer of changes into production, and an audit trail of program changes.

Without formalized controls governing program modifications, management increases the risk that incorrect or unauthorized changes could be moved into the production environment and adversely affect system processing. Also, without a formal documented system for tracking program modifications to completion, it would be difficult for Disability to know the status of requested changes or if they are being billed for services they did not request.

**Recommendation**

We recommend that Disability management develop and implement formal written program modification control procedures. The procedures should address the following issues:

- Authorization and approval of changes
- Technical and user documentation
- Tracking of requests
- Library maintenance and control
- An audit trail of changes to each program
- Testing requirements
- Virus scanning of program modules received over the Internet
- Transfer of changes into production

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-18: The Division Of Disability Determinations Should Improve Program Modification Procedures (Continued)**

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**Management's Response and Corrective Action Plan**

*Since the 1997 audit, in which many of these same issues were brought up, did not take place until after the FY 98 year was completed, none of the recommendations or corrective actions were put in place in FY 98. However, a number of corrective actions were implemented in the months following the FY 97 audit and likewise correct issues raised in the 98 audit.*

*Just after the beginning of calendar 1999 a number of unusual situations occurred simultaneously which forced the Department IS staff to divert resources and time from what had been intended for audit item remediation. In January the Department entered into discussions with the Social Security Administration and agreed to install the Social Security LAN/WAN (called IWS/LAN) on all of the desktops, training the entire staff (of over 450), etc. and complete these tasks before the end of May. Although the Department agreed to this ambitious schedule, procurement delays limited the installed number to 375 through May. The final 112 desktops are being installed July 8-11. In February the Department also began Beta testing a new departmental processor with Wang Global, produced a full proposal for an upgrade to the Department's Wang VS and sent it to SSA for approval. Clearly there were a number of unusual situations competing for the same time and resources needed to implement system procedural changes.*

*As stated in the audit report a database has been constructed to track program changes and is in the testing/implementation phase. The data that is tracked will cover most of the items listed in the FY97 audit report. With this database the Department expects to be able to track program changes and tie them to the cost in maintenance hours. This will formalize and better document the program modification process.*

*The audit reported correctly that program changes are sent from the programming vendor unencrypted through email. However, these are scanned for viruses.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-18: The Division Of Disability Determinations Should Improve Program Modification Procedures (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

*The department has a test facility and has had it since the first module was installed in 1984. New programs, new modules, or program modifications are first loaded to the test system, reviewed, tested and exercised before they are taken live. Typically, all program changes are tested. The additional controls that are being implemented (above) should ensure that all program changes are tested and virtually "nothing falls through the cracks". A comment was also made about test documentation. The database will document that the testing was done. However, the documentation of the test data is destroyed once the testing is complete, the program implemented, and it is working in the production environment. The Department does not keep long-term test data. The volume would be unmanageable. It is also essential to keep in mind that we are working with a departmental sized processor. It is not a mainframe. It supports a single integrated application. This is a situation where the tester will know by observation whether an entry or an outcome is correct. The IS staff is extremely knowledgeable of the application, both the business requirements and the software. The outputs are to screen or to paper and an incorrect program output will be very observable. Those few times when the IS staff finds the testing too complex or the testing need too detailed or exhaustive, users are asked to do the testing. On new modules in particular, once the programs are performing correctly, users, supervisors and/or application experts are asked to do the setup. The PDN module is a good example. After initial testing, users and policy staff did the final setup and testing. They were able to exercise the programs through a range of options beyond the knowledge of the IS staff. We do not believe that retaining old test data for the long term has a positive return in this environment.*

*It is the Department's position that a great deal of progress has been made toward implementing the FY97 audit recommendations. They have not been in place long enough to give an assessment of how well they are working. The Department has concern regarding the time and resources required doing these tasks, but it is only after attempting to use them that we can determine the cost. The Department is working toward completion of the changes agreed to in the 97 audit.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-19: The Division Of Disability Determinations Should Implement A Security Policy**

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State Agency: Cabinet for Families and Children

Federal Program: 96.001- Social Security–Disability Insurance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

As noted during the prior year audit, the Division of Disability Determinations (Disability) did not develop formal policies and procedures identifying management and user responsibilities concerning their Disability Determination System (DDS) security. Disability did follow certain procedures to secure system access based on user needs. Additionally, discussions revealed that DDS was in the process of beginning a draft security policy. However, at the time of our audit fieldwork, formal written documentation of user and security administrator responsibilities, policies, and security procedures were not developed. This finding was noted in the prior audit for fiscal year ended June 30, 1997. This system is instrumental in processing approximately twenty-two million dollars annually in disability determination related payments and involves over four hundred system users.

Failure to document existing policies could lead to a lack of understanding by management and users and result in a failure to comply with security controls in areas such as issuing, deleting, and sharing of user Ids. Failure to comply with security controls could lead to unauthorized data or program modification, destruction of assets, and interruption of services.

For security to be effectively implemented and maintained, written policies and procedures should be developed. This provides the security framework used to educate management and users of their security responsibilities. Further, formalized security policies provide continuity for policy implementation and illustrate management's concern for strong system security.

**Recommendation**

We recommend that Disability develop detailed written policies to establish standards for system security and procedures to be followed by the security administrator and system users. At a minimum, these security policies should:

- Define the duties and responsibilities of the security administrator.
- Develop formal procedures for notifying the security administrator of terminations or transfers of employees with system access.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-19: The Division Of Disability Determinations Should Implement A Security Policy (Continued)**

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**Recommendation (Continued)**

- Outline a security awareness program covering training, new hire orientation, and confidentiality statements. Periodic communication of the security policy to all employees should be required. Employees need to be made aware of their responsibility to ensure the proper use and confidentiality of data, user logon IDs, and passwords.
- Define procedures for maintaining adequate physical control over system resources such as keeping doors locked (if applicable), questioning strangers, and logging off terminals when employees leave the workstation.
- Define general procedures to be followed for conducting inquiries when it appears system security or data confidentiality has been comprised, and define formal actions to be taken against security violators.
- Define access rules to data files and resources such as procedures for requesting and processing modifications, additions, and deletions to system access.

**Management's Response and Corrective Action Plan**

*Since the 1997 audit, in which many of these same issues were brought up, did not take place until after the FY 98 year was completed, none of the recommendations or corrective actions were put in place in FY 98. However, a number of corrective actions were implemented in the months following the FY 97 audit and likewise correct issues raised in the 98 audit.*

*Just after the beginning of calendar 1999 a number of unusual situations occurred simultaneously which forced the Department IS staff to divert resources and time from what had been intended for audit item remediation. In January the Department entered into discussions with the Social Security Administration and agreed to install the Social Security LAN/WAN (called IWS/LAN) on all of the desktops, training the entire staff (of over 450), etc. and complete these tasks before the end of May. Although the Department agreed to this ambitious schedule, procurement delays limited the installed number to 375 through May. The final 112 desktops are being installed July 8-11. In February the Department also began Beta testing a new departmental processor with Wang Global, produced a full proposal for an upgrade to the Department's Wang VS and sent it to SSA for approval. Clearly there were a number of unusual situations competing for the same time and resources needed to implement system procedural changes.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-19: The Division Of Disability Determinations Should Implement A Security Policy (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

*As the auditors have seen there has been additional work done on the security policy although it has not been signed off on by the Commissioner nor distributed to Department Management. There has also been significant work done in a variety of other areas dealing with security policy. We intend to list several actions that have been taken in this area. A number of these actions implement procedures listed in the "Security Policy" and when that document is distributed much of what was recommended will be in place.*

- 1. In the time since the first audit, security awareness training has been undertaken. In preparation for the LAN installation security was discussed in depth during the staff orientation discussions. These were done in small groups with no more than about 30 in a group. The format was interactive with a good deal of user participation. In addition during training on the SSA query function additional discussion of confidentiality of data, security of logon and password were undertaken.*
- 2. Orientation for new staff includes emphasis on security considerations, system security, and privacy of data. This has been a part of the new employee orientation program for some time.*
- 3. Workstations are set up to lock within a few minutes if no keystrokes are detected. Users have been trained to lock the workstation if they walk away temporarily and logoff if they will be away for a while.*
- 4. The Department personnel administrator and training supervisor are much more aware of the need to make the system staff aware of hiring and departures of Department staff.*
- 5. Adequate physical controls of the system environment have been in place for some time before the first audit. The computer room has remained locked since the Department moved to the building in 1991. Building access has been limited for at least two years, with employees gaining access with an electronic sensor based entry system. Non employees must enter through the guard station (manned 24 X 7). Backup tapes are stored in a locked safe on the premises and a locked cabinet off site.*
- 6. The system staff has begun using a database to track changes of user access to programs and data as well as other security issues such as adding or deleting users or changing passwords.*
- 7. Efforts have begun to acquire films or other materials appropriate for security reminders or brief retraining for users. Several items have been identified through the Social Security Administration System Security Office.*

*When the Security Policy is published and distributed the various actions outlined will be tied together in a coherent whole.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-20: The Division Of Disability Determinations Should Improve System Logical Access Security Procedures**

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State Agency: Cabinet for Families and Children

Federal Program: 96.001- Social Security – Disability Insurance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

As noted in prior year comments, the Division of Disability Determinations (Disability) did not utilize formalized security authorization procedures to establish, modify, or revoke system access to their WANG departmental processor for the fiscal year 1998 audit period. This processor houses the Disability Determination Tracking System (DDS) software and related programs and data files. This issue was noted during the previous audit.

Further, our review revealed that five employees and two contractors working within the SOS have system access that allows them to serve as systems administrators. This access provides full access to DDS production programs and data files, the operating system, and sensitive utility programs. Discussions with the supervisor of the SOS revealed that account activity for users of DDS is not tracked unless a problem is suspected. This includes the account activity of users with system administrator level access.

During the audit period, the system administrators would commonly accept phone calls and e-mail from employee supervisors as a means for requesting employee system access. According to the SOS supervisor, there are approximately thirty supervisors that might contact the system administrators to request system access for their employees. Until recently, e-mailed requests were not required or maintained. This procedure requires the system administrators to ensure the identity of the requesting supervisor based upon voice recognition. This places an unnecessary burden on the system administrators, especially for the contract employee who might potentially serve as backup system administrator and does not provide documentation of the request and subsequent access level granted the employee or user.

Recently, the system began forcing password changes every 50 days; this was previously required every 30 days. Passwords must be a minimum of five characters and are encrypted by the operating system. The system will not allow a user to reuse their last three passwords, users are limited to one concurrent logon, users are automatically locked out after a period of 21 days of inactivity, and after three invalid login attempts the user's account is deactivated for five minutes.

Following the period under review, Disability has enforced the Confidentiality/Security Agreement, enabling compliance with Cabinet regulations. Testing was performed to assure that all employees have a signed agreement in their personnel file.



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-20: The Division Of Disability Determinations Should Improve System Logical Access Security Procedures (Continued)**

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The propriety of system access levels granted cannot be ensured without properly documented access requests approved by the employee supervisor and security coordinator. The accountability and auditability of resource access is achieved through documented request and approval procedures. Further, the level of system access granted should be restricted to areas necessary for the employee to perform assigned job duties.

**Recommendation**

Disability should formalize their security access request procedures. This normally involves developing an access request form that is completed and signed by the supervisor of the requesting employee. These forms are reviewed and approved by the security administrator and retained to support supervisory approval for the access provided to the user. The Division already requests users to sign security agreements for that reason and could request supervisors to complete access request forms to authorize the current access their employees should have. E-mail or fax documents could be used from that point to authorize modifications to access, as long as the source documents are retained. We realize DDS has recently instigated the requirement that access requests be supported by e-mail from the requesting supervisor. We recommend that, if request forms are not developed and implemented, at a minimum, the security administrators should retain e-mail as evidence to support the level of access requested and granted. The e-mail should be maintained in a manner that is conducive for the purposes of management and audit review.

Further, we recommend Disability management evaluate the necessity for seven system administrators. This level of security provides full access to all programs and files relating to DDS and is a significant exposure. If management feels they need five employees and two contractors to be provided this access, we recommend monitoring activities be performed on backup administrator accounts by the SOS supervisor. The security system provides the ability to log activity at various levels, and the supervisor can detect when the log is deactivated.

**Management's Response and Corrective Action Plan**

*Since the 1997 audit, in which many of these same issues were brought up, did not take place until after the FY 98 year was completed, none of the recommendations or corrective actions were put in place in FY 98. However, a number of corrective actions were implemented in the months following the FY 97 audit and likewise correct issues raised in the 98 audit.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-20: The Division Of Disability Determinations Should Improve System Logical Access Security Procedures (Continued)**

**Management's Response and Corrective Action Plan(Continued)**

*Just after the beginning of calendar 1999 a number of unusual situations occurred simultaneously which forced the Department IS staff to divert resources and time from what had been intended for audit item remediation. In January the Department entered into discussions with the Social Security Administration and agreed to install the Social Security LAN/WAN (called IWS/LAN) on all of the desktops, training the entire staff (of over 450), etc. and complete these tasks before the end of May. Although the Department agreed to this ambitious schedule, procurement delays limited the installed number to 375 through May. The final 112 desktops are being installed July 8-11. In February the Department also began Beta testing a new departmental processor with Wang Global, produced a full proposal for an upgrade to the Department's Wang VS and sent it to SSA for approval. Clearly there were a number of unusual situations competing for the same time and resources needed to implement system procedural changes.*

*In the time since the 97 audit, we have reflected on the recommendations made and the corrective actions taken in the area of logical security. It is this point that we wish to discuss before detailing some of the efforts made to effectuate the recommendations. Plus some of these comments relate to other areas of system audit.*

*The security recommendations from the first (97) and current (98) audits appear to be geared to an "enterprise" operation and not a "departmental" processor based system. The audit sees the need for the segmenting of security. In both audits there was concern that 7 people had full security administrator access. On a mainframe or enterprise system there are many more levels of security and many more specialized security profiles. The Wang operating system provides only two levels of security, administrator and other. There are no gradations or rankings of administrators. All administrators are equal. The non-administrator can access specific files as permitted but cannot change any type or aspect of security. Typically a non-administrator has read only and execute access to programs and no access to data files. This access level does not permit any administrative function. The user with this access cannot add, delete or change programs. The system is not large enough to justify a full time person to manage a group of files so it is left to the administrator to make these changes. Further all programs added or replacing a prior version must have their security adjusted to fit the overall security pattern. Only the security administrator can make this change. This is an area in which separation of duties and responsibilities cannot be extended to the administrative level.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-20: The Division Of Disability Determinations Should Improve System Logical Access Security Procedures (Continued)**

**Management's Response and Corrective Action Plan(Continued)**

*Related to this is the recommendation that security tracking be instituted on the System Administrators to offset the inability to separate duties and responsibilities. The Department attempted to do this. Tracking was total failure. Although the tracking could be done it showed nothing of use. Every time a user, including a security administrator, runs a program they open 20 to 50 files unless someone else already has them open. If you access the file directly, it shows an "open", but no more specific information. There is no identification of the record accessed. Inherent in the disability application programs from I. Levy is tracking of the user who adds, edits, or closes a record. This is as good as we can do in this area. Tracking does not offset the inability to effectively separate duties when it comes to administrators.*

*There are areas where we have made progress. As the 98 report shows the security agreement process has been put into effect. The Department also has a plan to validate and establish a baseline for user security access. A database has been put into place to track security changes and actions. This database provides personal data as a means for validating who is calling to request a security change. For example, a new password is set as the 4 digit month/day date plus the last 4 digits of the user's SSN. The actual digits are not spoken, requiring the user to have personal knowledge. Between email or written requests and validation through personal data there is no longer any need to recognize voices over the phone.*

*Department users have a minimum of 4 different logons that they must use regularly. If they have access to the State Mainframe or to MARS, they have at least 5. The change of expiration period on the Wang from 30 to 50 days was to synchronize the two most frequently used logons for the ease of user use. There are some minor corrections to the report: the minimum password is now 6 characters; three failed in 5 minutes locks the ID until it is released by an administrator.*

*With the acceptance of the Security Policy by the Department and the completion of the items discussed in the Logical Security and Security Policy sections many of the recommendations suggested will be in place.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-21: The Division Of Disability Determinations Should Complete Development Of A Formal, Documented Disaster Recovery Plan**

State Agency: Cabinet for Families and Children

Federal Program: 96.001- Social Security – Disability Insurance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

As noted during the prior audit period, the Division of Disability Determinations (Disability) has made progress in the development of its Disaster Recovery Plan. However, the plan is currently in the draft stage. This plan currently includes locations of hardware, identification of key personnel, vendor contacts, backup procedures, system description, steps to be taken for system recovery, and disaster scenarios. The draft does not specify how Disability will obtain replacement equipment in order to recover the Disability Determination Tracking System (DDS) processing. Further, it does not provide for alternate emergency processing procedures should a replacement WANG departmental processor not be obtainable in the case of a disaster. The plan does state that there are no large WANG VS installations in state government and that may take two weeks to replace should the WANG VS 16000 be destroyed. Finally, key personnel were identified, but adequate disaster recovery training and testing was not provided.

Not having a business recovery plan increases the possibility of loss due to excessive recovery time and costs and disruption of DDS processing capabilities. This could expose the Commonwealth to public scrutiny, as it could hinder Disability's ability to process payments for exams and medical reports.

Good management practices minimize risks through planning. The goal of a disaster recovery plan is to improve preparedness at minimal cost using available resources.

**Recommendation**

Disability should continue the development of its disaster recovery plan to include the following:

- Identification of a specific vendor that will agree to supply the needed equipment in case of a disaster (both short and long-term solutions).
- Identification of an alternate location that will house employees and any new equipment until a new structure can be completed.
- The development of alternate emergency processing procedures in the case of emergencies (both short and long-term solutions).
- Obtaining plan approval by the Division Director.
- Dissemination of the Plan and training of key personnel in case of a disaster.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-21: The Division Of Disability Determinations Should Complete Development Of A Formal, Documented Disaster Recovery Plan (Continued)**

**Management's Response and Corrective Action Plan**

*Much of the commentary in the Disaster recovery section is accurate. The Department "plan" in this area is complicated by the fact that the Department has only limited control in the area of disaster recovery. It is unlikely that insurance will cover the cost of equipment replacement. Any additional funding must come from the Social Security Administration. In an emergency they are committed to produce the funding in a very short time. However, getting any concrete statements in general commitments or even establishing procedures to follow in that situation is very difficult. The statements in the Disaster draft are correct, the contacts correct, and the basic outline is correct. Without the cooperation of SSA, we cannot be much more specific in the plan.*

*Similarly, when it comes to securing a new building in the face of disaster the Department has no authority to act on its own. This depends on CFC and the Finance Cabinet. This is at the least a shared responsibility.*

*Increasingly, finding a Wang processor if the current one is destroyed may be more and more difficult. Production of Wang systems is limited and it is uncertain how dependable a purchase from the used market will be. Because of the diminishing presence of Wang, the Department is in the process of developing a migration plan/strategy from the Wang to an AS400. This is a complicated process and requires rewriting the software, redesigning the file structure, and relicensing the software. This is a multi year project requiring federal funding. Central to the project is developing a plan to limit the risk of disaster caused by the migration itself.*

*The Department is continuing to proceed toward building a more complete plan and to ensure that the participants are clear about their role.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-22: The Division Of Disability Determinations Should Ensure All Modifications Are Completed To Allow Processing In The Year 2000**

State Agency: Cabinet for Families and Children

Federal Program: 96.001- Social Security – Disability Insurance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

As noted during the prior year audit, the Division of Disability Determinations (Disability) has not completed all modifications necessary to make the Disability Determination Tracking System (DDS) processing year 2000 compliant. The known necessary DDS hardware and major application program changes have been completed. However, several significant third-party utility software packages used by the SOS to manage DDS are not compliant.

The utility components that remain non-compliant depend on outside vendors to supply upgrades or software patches to make the components compliant. Discussions revealed that the SOS supervisor intends to purchase WANG alternatives to replace these utility programs if they are not compliant by the vendors in early 1999.

The year 2000 calculation is a problem associated with applications designed to save space by eliminating the “19” as the century in dates. If these systems are fed with the numbers “00” to represent the year, they may produce incorrect results or become totally nonfunctional since these systems may interpret this input as the year 1900 instead of 2000.

**Recommendation**

We recommend management take the necessary steps to ensure the DDS and applicable utility programs are year 2000 compliant. We recommend that any necessary modifications or replacements be accomplished no later than July 1, 1999, so that modifications to the system can be properly tested.

**Management’s Response and Corrective Action Plan**

*The year 2000 preparedness process has proceeded since the completion of the 97 audit. All of the third party utilities discussed in the 97 report have been replaced or upgraded to a year 2000 version. The Department has purchased from Wang an analysis using software that they developed to check the versions of all of the software in their operating system and application software. With the thousands of OS and program files there is no other way to inventory the versions. Any version deficiencies on the Wang systems have been remediated. At present we are awaiting post remediation analysis of the Louisville system as final check of the software inventory.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Reportable Conditions Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-22: The Division Of Disability Determinations Should Ensure All Modifications Are Completed To Allow Processing In The Year 2000 (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

*All of the noncompliant EDP hardware in the Frankfort Office has been replaced. The noncompliant equipment in Louisville is being replaced during the weekend of July 8-11, 1999. The Department has checked on its phone systems and building access system. We have inquired of the elevator in Louisville as well as the heating and the fire suppression systems in both locations.*

*SSA is planning to finance a full system forward date integration test of a Wang system including third party utilities. There is sufficient similarity among Wang disability systems that a complete test of one will give us a great deal of information on preparedness. The operating system versions and the utilities should be identical. All states have tested their Levy application system versions in the date forward environment. After this test the compatibility and integrated operation of the systems will be more certain. All states can benefit from the test findings.*

*For all Department purchases that may include microprocessors, the request specifies that the items be compliant based on the federal GSA definition of compliance furnished on the request. Inquiries of vendors concerning the compliance of their product generally receive a statement that claims far less than compliance. They say that they have tried to make it deal effectively with the date transition, but are unwilling to take on the responsibility of "compliance." The Department accepts software and statements only from firms who will be in business and in a position to supply support at the turn of the century should problems occur. At this point the Department is cleaning up Y2k odds and ends. The current installation of equipment in Louisville is the final major activity on the Department menu. Aside from clean up all that is left is further checking and cleanup of surprises. If there are areas of concern they revolve around the 2 rental properties and unknown chips embedded and controlling environmental infrastructure systems.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance**

**FINDING 98-CFC-23: The Cabinet For Families And Children Should Improve Accuracy In Billing And Eligibility Determination Functions For The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: \$3,322,325

The Child Care and Development Fund (CCDF) subsidizes the child care expenses of low-income families. On January 1, 1998, billing and eligibility determination functions for CCDF were transferred from the Cabinet to five outside service agencies under contract.

Direct payments of \$22,494,011 to child care providers for state-subsidized babysitting services were made through regular accounting channels during the second half of FY 98, January - June 1998. We tested a sample of 60 provider files and found numerous problems:

- Undocumented billing (i.e., no paper copy of the EAV) in 6 cases
- Payment for an ineligible family in 1 case
- Payment after termination of eligibility in 1 case
- Lack of a valid contract with the family for state assistance in 2 cases
- Incorrectly calculated parents' income, resulting in incorrect copayments in 6 cases
- Incorrectly calculated parents' copayments in 10 cases
- Failure to deduct a correctly calculated parent's copayment in 1 case
- Duplicate payments for the same service in 2 cases

We also observed instances where data was incorrectly entered from the billing forms (EAVs) into the system.

A new computer system, KCCMS, was put in place in January 1998 to handle billings and eligibility determinations for CCDF. Many payments to providers, particularly during the first three months of the year, were incorrect due to widespread and persistent failures of the new system.



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-23: The Cabinet For Families And Children Should Improve Accuracy In Billing And Eligibility Determination Functions For The Child Care And Development Fund (Continued)**

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As a result of the problems noted above, we question the validity of \$16,247 of the total \$110,001 paid to the 60 providers in our sample.

OMB Circular A-133, “Audits of Institutions of Higher Education and Other Non-Profit Organizations,” Compliance Supplement states, “Costs must be reasonable and necessary for the performance and administration of Federal awards.”

OMB Circular A-133 and CFDA 93.596 and CFDA 93.575, the laws governing CCDF and CCDBG respectively, each state at \_\_\_\_:113 that “[p]roper grant accounting records must be maintained.” Lack of an EAV or other billing statement constitutes grounds for questioning costs.

**Recommendation**

We have found evidence of poor planning and mismanagement, but no indication of fraud in the overpayments detailed above. While the Cabinet for Families and Children should consider attempting to recover the overpayments, such efforts may not be cost-effective.

All data entry operations by service agency personnel should be proofread or reentered by a second person to ensure accuracy of billings. All EAVs should be signed or initialed, and dated by the person who enters the information and by the person who proofreads it. These two controls would guard against both error and fraud in this key step in the billing process.

During the last few months of the fiscal year, we noted improvement in the agreement of amounts paid to child care providers with EAVs. We also noted that Cabinet and service agency personnel worked hard to overcome the new system’s disastrous start.

**Management’s Response and Corrective Action Plan**

*As of September 1, 1999, all EAVs will be signed or initialed, and dated by the person who enters the information.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$5,240,535

The Child Care and Development Fund disburses grant monies to child care providers through mini-grant contracts. We tested a sample of mini-grant contracts to determine if the Cabinet for Families and Children monitored them in accordance with A-133 and grant-contract provisions. Based on our testing results, the Cabinet has consistently failed to monitor, audit, and evaluate the reimbursement requests submitted for expenses incurred by child care providers to ensure that expenses for which reimbursements are requested are allowable costs under A-133.

The FY 1997 audit of the Cabinet for Families and Children disclosed a reportable condition relating to the monitoring of subrecipients. We tested a sample of 40 day care centers and noted that files for 18 centers did not have documentation to support payments, resulting in a known questioned cost of \$49,214 and a likely questioned cost of \$615,179.

In its response to the finding, the agency indicated that child care providers would be required to submit receipts for each purchase, two additional staff would be assigned to the review process, and all receipts would be verified against the approved budget to assure that purchases were approved by the contract. However, during our testing for the FY 1998 audit, we found that the deficiencies with the monitoring system have not been corrected.

Specifically, during FY 1998, we selected a sample of 40 contracts; however, the sample was reduced to 10 due to the large number of exceptions that were found. All of the exceptions were related to the processing and review of mini-grant payments, which are made after a child-care provider requests reimbursement for expenses incurred under the contract or agreement. Our testing revealed the following problems with the Child Care and Development Fund mini-grants:

- Supporting documentation for personnel expenses was not present for 6 payments made to 3 subrecipients.
- Supporting documentation for personnel expenses was insufficient and did not support the amounts of 6 payments made to 4 subrecipients.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Monitor Payment Requests Submitted by Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions (Continued)**

- Supporting documentation did not agree to award amounts paid for 9 of the 10 sample items.
- Supporting documentation was less than the amount paid to the provider for 15 grant payments.
- Supporting documentation was greater than the amount paid to the provider for 4 grant payments.

Altogether, documentation failed to support a total of \$37,734 of grant payments made to the subrecipients for the 10 items tested. CFC failed to evaluate the reimbursement requests that were submitted to ensure that the payments were allowable costs.

Based on our review, we conclude that CFC has materially misrepresented its corrective action plan.

CFC personnel maintain that supporting documentation was not reconciled to the amounts requested for reimbursement due to understaffing and a lack of formalized procedures. Also, CFC personnel state that child care providers do not have the education and training to know what types of documentation they are to submit to receive reimbursement.

The lack of proper documentation prevents CFC from determining whether expenses incurred by subrecipients are for allowable costs. CFC's failure to withhold payments to subrecipients, until adequate supporting documentation is received increases the likelihood that grant monies are expended for unallowable costs.

OMB Circular No. A-133 subpart C. paragraph (b) states that the auditee (CFC) must, "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs." Both CFDA 93.596:113 and CFDA 93.575:113 state that, "[p]roper grant accounting records must be maintained."

Attachment C of the mini-grant contract with each child care provider states that "... the Cabinet for Families and Children agrees to perform the following functions: monitor, audit, and evaluate the activities of the Second Party under this agreement and contracts related to it, and keep the Second Party informed of the findings."

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Monitor Payment Requests Submitted by Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions (Continued)**

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**Recommendation**

The Cabinet for Families and Children should:

- Deny reimbursement to subrecipients who submit incomplete and inadequate documentation for expenses incurred under the mini-grants.
- Establish specific written policies and procedures as to how CFC personnel should determine whether subrecipient costs are accurate and allowable. To ensure that proper documentation is submitted to the Agency, these policies and procedures should be provided to the subrecipients.
- Commit adequate resources to monitoring of subrecipient's to ensure that payment requests are properly reviewed before payments are made.

**Management's Response and Corrective Action Plan**

*The Cabinet completed Child Care Provider Service Agreements with child care providers whose applications/requests for proposals were accepted and awarded Child Care Development funds. Invoicing (requests for reimbursement) procedures were submitted by the child care providers and included the amount of reimbursement being requested. The agreements included language that made it the responsibility of the child care providers to maintain supporting documentation to substantiate the amount being requested and to furnish said documentation upon request of the Cabinet. The invoice contained a statement certifying that the information contained in the invoice was accurate to the best of the providers' knowledge.*

*The Cabinet concurs that the language used to describe what additional documentation was necessary to accompany the request for reimbursement could be strengthened. The Contracts Management Branch relied heavily on the Division of Child Care and the Child Care Resource and Referral network to provide technical assistance to the child providers. In the future, the Cabinet's Division of Outcome Based Contracts will become further involved in the monitoring of these providers to ensure that accompanying documentation amount of reimbursement being requested.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

*The Contracts Management Branch is requesting that they be provided the names of the ten (10) contracts that were selected for the audit sample in order to contact the providers and request additional, supporting documentation and reconcile the questioned costs. In addition, the Division of Outcome Based*

*Contracts is requesting technical assistance from the Auditor of Public Accounts' Office as to what type of supporting documentation contractors should be advised to produce with their reimbursement requests. The Branch will then work with the Cabinet's program Divisions and providers to ensure compliance for future audits. For example, the Division of Outcome Based Contracts will work more closely in the future with the Cabinet's program Divisions and the child care providers to ensure all parties are aware of allowable expenditures under the CCDF and will advise the providers of what documentation is required when requesting reimbursement of expenses. Providers will be advised, either in writing or by telephone call, when reimbursement is either disallowed and/or deferred for payment and the reasons for the decision. The file of record will be documented accordingly.*

**FINDING 98-CFC-25: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$3,023,137

The Cabinet for Families and Children (CFC) did not adhere to system development life cycle methodology established by the Department of Information Systems (DIS) when developing and implementing the Kentucky Child Care Management System (KCCMS). Failure to comply with this methodology caused numerous payment processing difficulties.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-25: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

Based upon discussions with CFC and DIS personnel, CFC's intention for this system was to centralize child care payment procedures and to privatize child care eligibility determination and monitoring. CFC would eventually contract with five service brokers to perform child care reimbursement eligibility determination and monitoring tasks. Previously, these tasks had been accomplished by Commonwealth caseworkers located throughout the state.

CFC determined that a system in use by the state of Tennessee could be modified to accomplish the goals established for the Commonwealth. CFC contracted with Claremont Technologies Group, Inc. (Claremont) to modify, enhance, and implement KCCMS for the Commonwealth. The intent of this contract was for Claremont to develop and implement the system and processing responsibilities that would later be assumed by DIS and the CFC Division of Child Care personnel.

System development and modification began in the last half of fiscal year 1997, and senior CFC management fully expected that this system would be implemented in January 1998. A small project team was formed with DIS and CFC Office of Technology Services (OTS) personnel. This project team was assigned the formidable tasks of determining hardware demands, key agency personnel to assign for support, potential contractors and award recommendations, policy and procedures development, and processing design. Discussions with task force members and various personnel within CFC and DIS revealed that senior CFC management did not provide adequate direction for the project. When the project team developed a transition plan, CFC senior management rejected it without supplying an alternative plan. Further, inadequate support was provided by the Division of Child Care (Child Care), the intended user agency. The project team watched as their key point personnel throughout the state dwindled from 45 to only 11 statewide. Further, Child Care management would not assume responsibility for the development of policies and procedures for KCCMS processing. Additional problems ensued once caseworkers realized the new system being brought on would potentially displace them. This was reported to have caused a loss of personnel, resulting in failure to get child care provider payments processed during the first six months of fiscal year 1998. Except for minimal representation on the project team, Claremont did not involve DIS or Child Care personnel in the system acceptance testing. As of November 1998, the project team has established a complaint tracking mechanism for KCCMS to assist with problem resolution.

Implementation was required beginning January 1998. KCCMS did not run parallel with the existing system, the Day Care Provider System, for any period of time. Numerous problems occurred with the system and its interface with the Statewide Accounting and Reporting System (STARS). DIS assumed processing responsibilities around March 1998. The Claremont contract was eventually terminated in September 1998. Claremont did not receive payment for the full contract amount.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-25: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

In order to assure that funds are expended only for allowable federal program costs, effective internal controls must be implemented and consistently followed. Additionally, 45 CFR 98.67 requires that agencies receiving federal funds maintain adequate records that should be available for audit purposes.

Numerous problems occurred during the last half of fiscal year 1998 due to inadequate KCCMS testing and the lack of user agency support and responsibility:

- Extremely slow processing was encountered during KCCMS payment calculations, because Claremont failed to remove various unnecessary database tables and related routines within the system that slowed processing.
- The STARS interface process faltered due to problems with vendor number compatibility and other issues not adequately considered or tested during development. This resulted in hundreds of payments being rejected and delayed unnecessarily.
- The failure to maintain adequate staff to perform child care reimbursement eligibility determinations and payment processing during the first half of fiscal year 1998 resulted in a backlog of unpaid reimbursement requests as of January 1998. Since the old system did not run parallel to KCCMS, and payment information concerning the first half of fiscal year 1998 was not included in KCCMS, normal payment processing and support was unavailable for these reimbursement requests. The CFC Secretary approved manual or “off-system” payments for these requests that often provided no support for the assisted families. Further, no formal procedures were developed concerning required documentation and the payment procedures to be followed to issue these manual payments. As a result, our review revealed that no one within Child Care maintained a verifiable record of all manual payments. Our recalculations revealed that KCCMS related manual payments for fiscal year 1998 totaled \$3,093, 571.
- The manual payments noted above were not included within KCCMS payment totals. Therefore, any fiscal year 1998 expenditure summaries drawn from KCCMS are incomplete. Furthermore, these payments were processed without provider/vendor information within STARS. Detailed vendor payment information is not available from either KCCMS or STARS.
- All manual payments were processed through STARS with a \*\*Daycare vendor number which made these payments unavailable to the STARS Vendor Offset System. That system intercepts payments to any providers that owe the Commonwealth money.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-25: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

- System detail was unavailable for the manual payments in either KCCMS or STARS. Therefore, we could not determine the extent of payment duplications that might have occurred due to the extensive use of manual payments. The agency had received returned checks and refunds from providers as a result of duplicate payments they received. However, without adequate manual payment detail, we could not determine if duplicate payments were the result of inaccurate manual payment processing or STARS interface problems.

Failure to adequately involve user agencies with system development, testing, and implementation can result in systems that process in either an inefficient, incomplete, or untimely manner. The manual payment process utilized as it was during fiscal year ended June 30, 1998 could result in unsupported or duplicated payments. These payments would not be allowable costs for the federal program. We were not able to audit these expenditures due to the lack of proper documentation of these payments. Due to inadequate support for these payments, we are questioning the federal program expenditure portion of the manual payments processed during the last half of fiscal year 1998, which total \$3,023,137.

**Recommendation**

We recommend that the Cabinet for Families and Children strictly adhere to DIS established system development life cycle procedures for future system implementation projects. The CFC Secretary should provide the directives necessary to ensure that the Division of Child Care take responsibility for KCCMS and related payment processing. This includes assurance that adequate policies and procedures are developed surrounding both the service agent level processes and central level processes. This responsibility should not fall solely on the Office of Technology Services or the KCCMS project team. Policies and procedures should include strict limitations on the issuance of manual payments, and adequate support documentation should be obtained and maintained for those payments. Furthermore, adequate procedures should be implemented to monitor the completeness and accuracy of the KCCMS database and the related STARS transactions. As of February 1999, some of these procedures and controls have been put into place due to efforts of new employees assigned to those areas. CFC senior management should ensure adequate direction is provided in this area. Adequate measures should be taken to ensure users of any KCCMS fiscal year 1998 payment-related reports realize figures do not include manual payments.



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-25: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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**Recommendation (Continued)**

We further recommend that the Division of Child Care obtain detailed support for the \$3,093,570.51 in manual payments processed during the last half of fiscal year 1998 and review for propriety. This detailed support should also be compared to KCCMS “on-system” payment information to determine the extent of any duplicate payments. Any duplicate payments discovered should be recouped and refunded to the proper federal agency. The same procedure should occur for any provider payments that were made through the manual payment process which are determined to be invalid or unsupported.

**Management’s Response and Corrective Action Plan**

*Since the implementation of KCCMS the Division of Child Care has been involved a varying levels with the development and modification of the system. Currently, there is a team, consisting of DIS, OTS, Child Care and Office of Policy Development personnel. This team meets weekly to update how the system is functioning, problems incurred and solutions. DIS continues to establish system development life cycle procedures that the Division of Child Care has adhered to and communicates to service agents, when applicable.*

*The Division of Child Care makes decisions and develops policy and procedures, with technical assistance from the OTS, DIS and KCCMS project team. Presently, technical support is not located within the Division. However plans are currently underway to locate these positions within the Division of Child Care. This will facilitate the continuity of communication, modification of the system, problem identification and solution.*

*Additionally, it will expedite the Division’s ability to accept sole responsibility for KCCMS. It should also be noted that there is now a dedicated finance person housed within the Division whose sole job is to make and track payments. This increases financial accuracy and decreases processing errors.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Material Weaknesses Relating To Internal Controls And/Or Compliance (Continued)**

**FINDING 98-CFC-25: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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**Auditor's Response**

The CFC management response and corrective action plan did not adequately address the problems or concerns presented in this comment. We acknowledge that it appears the CFC Division of Child Care has gained better control of KCCMS processing and that certain procedures were developed during the last six months by new personnel within the division. However, we wish to accentuate specific points:

- The management's response and corrective action plan ignored the finding of a \$3,093,571 questioned cost. By questioning these expenditures, we assert the federal fund expenditure portion of \$3,023,137 may be subject to recovery by the applicable federal agency.
- Prior to approximately February 1999, no documented procedures were developed to reconcile provider payments with payment data within KCCMS.
- Formal procedures did not exist to ensure that KCCMS payment data reconciled with STARS data.
- Proper system development life cycle procedures were not implemented for KCCMS. Adequate user acceptance testing procedures were not followed, resulting in the necessity for the manual off-system payments.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance**

**FINDING 98-CFC-26: The Cabinet For Families And Children Should Implement Measures For Timely Audit Reports In Relation To Low Income Home Energy Assistance Branch**

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State Agency: Cabinet for Families and Children

Federal Program: 93.568-Low Income Home Energy Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

We reviewed the Low Income Home Energy Assistance Branch's compliance with the subrecipient monitoring provisions of OMB Circular A-133. Our testing indicated that 8 of 24 subrecipient audit reports were not received within 13 months after the end of the fiscal year. Those eight reports were in the agency's possession for more than six months, but their desk review was not finalized in that length of time. Sixteen audit reports were received timely and reviewed almost immediately; however, the auditors were not notified and/or revised audit reports conforming to OMB Circular A-133 were not received within six months after receipt of the initial drafts.

The Cabinet for Families and Children is not complying with OMB Circular A-133. §\_\_.320 (a) of that circular states, "The audit shall be completed and the data collection form . . . shall be submitted within the earlier of 30 days after the receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, an audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.)" In addition, §.400 (d) states, it is the responsibility of the pass-through agency to ". . . issue a management decision on audit findings within six months after receipt of the subrecipients' audit report and ensure that the subrecipient takes appropriate and timely corrective action."

**Recommendation**

We recommend that the Cabinet implement measures to ensure the timely receipt, review, and resolution of subrecipient audit reports.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-26: The Cabinet For Families And Children Should Implement Measures For Timely Audit Reports In Relation To Low Income Home Energy Assistance Branch (Continued)**

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**Management's Response and Corrective Action Plan**

*The Office of Performance Enhancement (OPE), Division of Outcome Based Contracts (DOBC), Contracts Management Branch, was designated as the point of entry for audits beginning with FY'97-98 audits. Audits are logged in upon receipt and tracked until finalized by a designated staff person. This includes OMB-A-133 audits for community action agencies and other agencies providing LIHEAP services. A staff person in the Branch has been designated to log in audits as received tracked until finalized, follow-up on those not received and ensure corrective action plans are developed when appropriate. For FY'98 contracts, the Branch sent letters to all subrecipients required to submit A-133 audits and reminded them of the due date of these audits and informing them to request an extension in writing if they couldn't meet that deadline. For FY 2000, the Branch included language, that required the subrecipients to submit the engagement letter and the management letter in addition to the audit. The Cabinet continues its contract with the Office of the Inspector General, Division of Audits, for review of A-133 audits. The Cabinet is also in the process of developing criteria for contract cancellation for noncompliance.*

**FINDING 98-CFC-27: The Cabinet For Families And Children Should Review Procedures In Relation To Low Income Home Energy Assistance Branch**

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State Agency: Cabinet for Families and Children  
Federal Program: 93.568-Low Income Home Energy Assistance  
Federal Agency: U.S. Department of Health and Human Services  
Pass-Through Agency: Not Applicable  
Compliance Area: Subrecipient Monitoring  
Amount of Questioned Costs: None

Community Based Services did not verify that Community Action Agencies (CAA) corrected or reworked problems discovered during the on-site dwelling reviews. Reviewers may reexamine items requiring rework at their discretion; however, Community Based Services neither retained documentation of rechecked items nor maintained a log tracking which problems had been corrected or were in the process of being corrected. This problem was noted in the prior year.

Community Based Services' technical monitoring was not sufficient to determine if necessary corrective actions were taken by the CAAs.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-27: The Cabinet For Families And Children Should Review Procedures In Relation To Low Income Home Energy Assistance Branch (Continued)**

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OMB Circular A-133 §.400 (d) (3) states that it is the responsibility of pass-through agencies to ". . . monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." Part of monitoring should be determining whether necessary corrective actions have been taken.

**Recommendation**

We recommend that Community Based Services follow up on CAA technical findings to ensure that they have been satisfactorily reworked. We further recommend that they maintain a log indicating the status if items require rework, including the date that rework was completed and verified as satisfactory by Community Based Services.

**Management's Response and Corrective Action Plan**

*During the FY'98-99 contract year, the Energy Assistance Branch developed and used a log to track all reworks that were identified during the monitoring visit. The log lists by agency the job numbers of dwellings needing reworks and date verification is received. This rework information is filed with the monitoring report. During a subsequent monitoring visit, the monitor will verify that the reworks were completed*

**FINDING 98-CFC-28: The Cabinet For Families And Children Should Review Segregation Of Duties In Relation To Imprest Cash**

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State Agency: Cabinet for Families and Children

Federal Program: Not Applicable

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Not Applicable

Amount of Questioned Costs: None

Our evaluation of internal controls over the Reimbursements Branch at the Cabinet for Families and Children revealed the following weakness:

- An employee authorized to use the check-signing machine also had access to the cabinet where the pre-numbered, unissued checks were stored. This same employee matched the checks to the corresponding check register and opened the mail for the Reimbursement Branch.

An employee, who has access to both unissued checks and the check-signing machine, represents a control weakness, which could allow for the loss of funds. The duty of check signing should be segregated from reconciliation of checks to the check register.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-28: The Cabinet For Families And Children Should Review Segregation Of Duties In Relation To Imprest Cash (Continued)**

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Good internal controls require specific policies and procedures to be developed and implemented to safeguard assets. These policies and procedures, if followed, reduce the risk of loss or theft of assets.

**Recommendation**

We recommend that the Cabinet for Families and Children review the job duties of Reimbursement Branch employees to ensure that:

- No one has access to both the check-signing machine and unissued checks, and
- No one performing reconciliation of checks to the check register should also be responsible for signing checks.

**Management's Response and Corrective Action Plan**

*We concur with the recommendation. During a recent reorganization and reallocation of job duties, these functions are segregated.*

**FINDING 98-CFC-29: The Cabinet For Families And Children Should Report In A Timely Manner In Relation To Social Security Disability Insurance**

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State Agency: Cabinet for Families and Children

Federal Program: 96.001-Social Security Disability Insurance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

We tested a sample of reports submitted by the Division of Disability Determinations for compliance with federal regulations. We noted the following weaknesses during testing:

- The 4513 Report for FY 1998 was filed 10 days late
- The August 1997 and April 1998 Monthly Obligations Reports were both filed 2 days late
- The CEMS Reports for FY 1997 first and third quarters were each filed 11 days late

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-29: The Cabinet For Families And Children Should Report In A Timely Manner In Relation To Social Security Disability Insurance (Continued)**

Filing reports after the required due date is a violation of federal administrative requirements, as stated in the Program Operations Manual Systems (POMS), which requires agencies to adhere to specific rules in filing federal reports:

- Report 4513 should be filed within 30 days after the end of the report month
- Monthly Obligations Report should be filed within 20 days after the end of the report quarter
- CEMS Report should be filed within 45 days after the end of the report quarter

**Recommendation**

We recommend that CFC file federal reports in compliance with stated federal regulations.

**Management's Response and Corrective Action Plan**

*We agree with the recommendation. Responsible employees have again been informed of the necessity to submit reports on a timely basis.*

**FINDING 98-CFC-30: The Cabinet For Families And Children Should Implement Sanctions To Be Taken Against County Officials Who Refuse To Submit Required Audit Reports**

State Agency: Cabinet for Families and Children

Federal Program: 93.563-Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

Child support personnel in the Division of Outcome-Based Contracts maintain two separate logs to monitor financial and compliance audit reports for the county officials. The financial audit log shows the date received, period audited, date late notice sent to subrecipient (if applicable), date the response was received, exceptions noted, date the request for a corrective action plan was sent to the subrecipient (if applicable), date the corrective action plan was received, and date the corrective action plan was accepted or rejected. The compliance audit log shows the date the audit was reviewed, date it was received, number of actions reviewed, number and percentages of establishment of paternity and support, enforcement and case closures, date of letter to county official, and date of county official's response.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-30: The Cabinet For Families And Children Should Implement Sanctions To Be Taken Against County Officials Who Refuse To Submit Required Audit Reports (Continued)**

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After discussions with the personnel involved with the county officials' audits, it is understood that any officials who refuse to submit an audit report are referred to the Office of Counsel and the Director of DCS is notified. At the current time, personnel do not know what type of sanctions, if any, are taken against county officials who refuse to cooperate.

While it is understood that the Cabinet is making every effort to obtain the audit reports from the county officials, the agency has not been successful in getting all officials to cooperate with this requirement. Currently, there are no sanctions taken by the Cabinet against those county officials who fail to cooperate, other than being referred to the Office of Counsel.

Without the audit reports, the DCS is unable to ensure that subrecipients spent federal assistance funds in accordance with applicable laws and regulations.

OMB Circular A-133, sections 200 and 320, require:

- Subrecipients (county officials) expending more than \$300,000 per year in federal assistance to submit a financial audit to DCS
- Subrecipients expending less than \$300,000 per year in federal assistance must make available their records for review or audit by appropriate officials of DCS
- Required audit reports be submitted within 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit

**Recommendation**

The Cabinet for Families and Children should develop and implement some form of sanctions to be taken against county officials who refuse to submit audit reports.

OMB Circular A-133, section 225, lists suggested sanctions, such as:

- Withholding a percentage of federal awards until the audit is completed satisfactorily
- Withholding or disallowing overhead costs
- Suspending federal awards until the audit is conducted
- Terminating the federal award



**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-30: The Cabinet For Families And Children Should Implement Sanctions To Be Taken Against County Officials Who Refuse To Submit Required Audit Reports (Continued)**

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**Management's Response and Corrective Action Plan**

*The Director of the Division of Outcome Based Contracts (DOBC) and the Director of the Division of Child Support (DCS) have drafted a plan to address the situation described in CSE-1. Upon approval by the Office of Counsel and the Secretary of the Cabinet for Families and Children, the plan, drafted in June and July, will apply to both the Program Compliance Monitoring and to the Contract/Financial Monitoring. The draft plan is as follows:*

- 1. Each contract with non-compliance issues will be sent a request for a Corrective Action Plan to be submitted to DOBC within thirty (30) days. This letter will be sent by DOBC.*
- 2. If a Corrective Action Plan is not received within thirty days, a second request will be sent. The letter will require submittal within the next thirty days. The letter will also provide notification that if the plan is not received by DOBC within that time frame, the Cabinet for Families and Children will take negative action. The first negative action will be the withholding of any payment for services provided as a part of the contract until the matter is resolved. If the plan has not been received by the end of 30 days, the second negative action will be to provide notification to cancel the contract pursuant to Page 7, item 11, of the Program Administration.*

**FINDING 98-CFC-31: The Cabinet For Families And Children Should Review Policies and Procedures For The Child Care Program Of The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: None

We reviewed the "Service Agent Handbook" which outlines the Cabinet for Families and Children's policies and procedures for the Child Care Program. During our review, we noted the following omissions:

- Service agents are required to report to the Cabinet for Families and Children any suspected cases of fraud; however, nothing in the handbook requires Service Agents to look for overpayments or fraud.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-31: The Cabinet For Families And Children Should Review Policies and Procedures For The Child Care Program Of The Child Care And Development Fund (Continued)**

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- Unregulated child care providers who are not related to the children they care for are required to enroll to ensure they meet minimal health and safety requirements; however, the handbook does not require them to update required health and safety information after their initial enrollment; thus, enrolled providers may fail to meet these minimal requirements.

OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations Compliance Supplement," states, "Costs must be reasonable and necessary for the performance and administration of federal awards."

45 CFR 98.45 requires that all child care providers not licensed or certified be registered prior to receiving payment. 45 CFR 98.41 requires that all providers other than relatives of the child meet "requirements designed to protect the health and safety of children . . ."

**Recommendation**

The Cabinet for Families and Children should modify the Service Agent Handbook to include the following requirements:

- Guideline # 9 should require Service Agents to check a sample of completed EAV forms each month for honest and accurate claims of service by child care providers
- Guideline # 11 should require enrolled child care providers to re-enroll or provide updated health and safety documentation at regular intervals

**Management's Response and Corrective Action Plan**

*The Service Agent Handbook is currently under revision and will include a requirement that service agents check a sample of EAVs monthly for honest, accurate claims of service.*

*Per regulations, enrolled providers are required to re-enroll after 3 years. Health and safety documentation is kept by Central Office and notice is sent to providers from here. This information will be included in the revised Service Agent Handbook.*

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-32: The Cabinet For Families And Children Should Revise The Billing System For The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluations, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: None

We reviewed the billing system for the Cabinet for Families and Children's Child Care and Development Fund and noted the following weaknesses:

- The billing system never closes out
- There appears to be no deadline for submitting bills

The Cabinet would need special legislative permission to pay newly submitted bills for services rendered during a prior fiscal year, if all funds for that fiscal year had been expended.

Contracts require service agencies to submit "appropriate and timely invoices" to CFC by the 15<sup>th</sup> of the following month (page 2a, item i).

KRS 45.229 forbids the incurring of any obligation or expenditure for a fiscal year after that fiscal year has closed.

KRS 45.231 allows payment of claims not presented or encumbered within the fiscal year, provided that the agency has an "available balance sufficient to pay the obligation at the close of the fiscal year in which the obligation was incurred."

KRS 45.251(4) states that expenditures may be approved provided that the expenditure is being made from the unexpended balance of a proper allotment.

**Recommendation**

We recommend that the billing system for the Child Care and Development Fund be revised to place a one-year deadline on submission of bills for services rendered by child care providers.

**CABINET FOR FAMILIES AND CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Other Matters Relating To Internal Controls And/Or Compliance(Continued)**

**FINDING 98-CFC-32: The Cabinet For Families And Children Should Revise The Billing System For The Child Care And Development Fund (Continued)**

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**Management's Response and Corrective Action Plan**

*Test changes will be made to EAVs and certificates incorporating language regarding timely submission of bills for services rendered. Once completed, written notification will be sent to providers receiving CCAP funds, notifying providers of change and providing adequate time to balance their respective accounts. Other options being explored with DIS include a date block, whereby when time has lapsed the respective EAV will not be able to be input.*

**FINDING 98-CFC-33: The Cabinet For Families And Children Should Include "Efficiency" As A Performance Criterion In Contracts With Service Agents**

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State Agency: Cabinet for Families and Children

Federal Program: 93.575-Child Care And Development Block Grant, 93.595-Welfare Reform Research, Evaluation, And National Studies, And 93.596-Child Care Mandatory And Matching Funds Of The Child Care And Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: None

We reviewed the Cabinet for Families and Children's contracts with five service agencies which handle billing and eligibility determinations for the Child Care and Development Fund and found that the contracts do not include "efficiency" as a performance criterion, as in "efficient use of funds." As a result of this weakness, service agents have no mandate to use funds wisely.

OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations, Compliance Supplement," states, "Costs must be reasonable and necessary for the performance and administration of Federal awards."

**Recommendation**

The Cabinet for Families and Children should modify future contracts to include "efficient use of funds" as a performance criterion.

**Management's Response and Corrective Action Plan**

*The Cabinet will develop a performance criterion relative to "efficient use of funds" for FY 2001 contracts.*

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**



**CABINET FOR FAMILIES AND CHILDREN  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<i>(1) Audit findings that have been fully corrected:</i>					
<b><u>Reportable Conditions</u></b>					
FY 97	97-CFC-28	The Cabinet for Families and Children should improve audit tracking and review procedures in relation to the Low-Income Home Energy Assistance Program.	93.568	0	Based on discussions with a representative of the Inspector General's Office and our review of CFC's corrective action plan, we believe that the necessary actions have been implemented to strengthen this weakness.
FY 97	97-CFC-29	The Cabinet for Families and Children should improve controls over subrecipient monitoring within the Low-Income Home Energy Assistance Program.	93.568	0	Our audit showed that this comment was resolved for the year ended June 30, 1998.
FY 97	97-CFC-30	The Department for Social Insurance should improve controls over subrecipient monitoring within the Job Opportunity and Basic Skills Program of Temporary Assistance for Needy Families.	93.558	0	Our audit showed this comment was resolved for the year ended June 30, 1998.
FY 97	97-CFC-32	The Department for Social Services should improve its audit tracking and review system.	93.558	0	Our audit showed this comment was resolved for the year ended June 30, 1998.
FY 97	97-CFC-37	The Cabinet for Families and Children should develop procedures to ensure vendors providing services to federal programs are not debarred or suspended by the federal government.	All applicable programs.	0	Our audit showed this comment was resolved for the year ended June 30, 1998.
FY 97	97-CFC-38	The Department for Social Services should improve its audit tracking and review system.	93.667	0	Our audit showed this comment was resolved for the year ended June 30, 1998.

**CABINET FOR FAMILIES AND CHILDREN  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
<b><u>Reportable Conditions (Continued)</u></b>					
FY 97	97-CFC-39	The Department for Social Services should ensure that monitoring of day treatment and Chapter I	93.667	0	Our audit showed this comment was resolved for the year ended June 30, 1998.
<i>(2) Audit findings not corrected or partially corrected:</i>					
<b><u>Reportable Conditions</u></b>					
FY 97	97-CFC-31	Sufficient supporting documentation should be maintained for Child Care Development expenditures.	93.575	\$49,214	Our audit showed this comment was not resolved for the year ended June 30, 1998. See audit comment, CFC Finding 98-22.
FY 97	97-CFC-33	Discovery and collection of overpayments of TANF funds should be identified and pursued promptly to maximize recovery.	93.558	\$23,175	Our audit showed this comment was not resolved for the year ended June 30, 1998. Similar problems were noted during FY 98, see audit comment CFC Finding 98-6.
FY 97	97-CFC-34	The Department for Social Insurance should implement procedures to ensure adequate documentation exists for transportation payments to participants.	93.558	\$1,290	Our audit showed this comment was not resolved for the year ended June 30, 1998. Similar problems were noted during FY 98. See audit comment CFC Finding 98-7.
FY 97	97-CFC-35	The Department for Social Insurance should implement procedures to ensure adequate supporting documentation is maintained.	93.558	\$777	Our audit showed this comment was not resolved for the year ended June 30, 1998. Similar problems were noted during FY 98. See audit comment CFC Finding 98-13.



**CABINET FOR FAMILIES AND CHILDREN  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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*(2) Audit findings not corrected or partially corrected:*

**Reportable Conditions** (Continued)

FY 97	97-CFC-36	The Department for Social Services should implement procedures to ensure adequate supporting documentation is maintained.	93.658	0	Our audit showed this comment was not resolved for the year ended June 30, 1998. Similar problems were noted during FY 98. See audit comment CFC Finding 98-13.
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**(3) Corrective action taken is significantly different from corrective action previously reported:**

Not applicable.

**(4) Audit finding is no longer valid**

Not applicable.

